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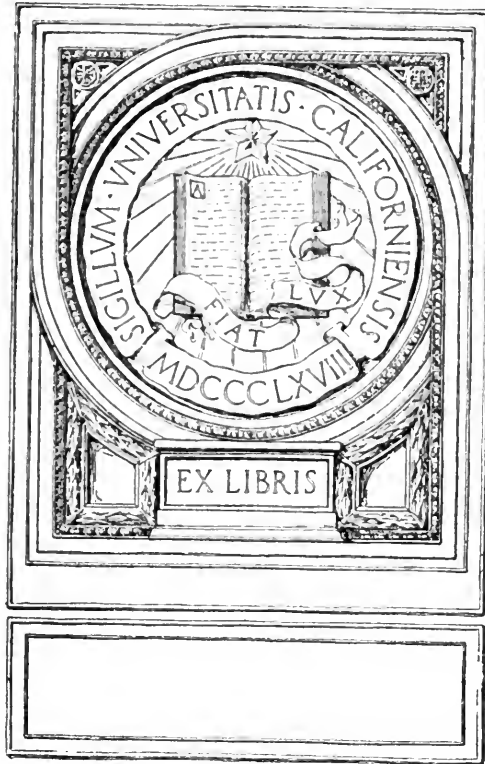
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INTERNATIONAL EXCHANGE



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INTERNATIONAL EXCHANGE

Its Terms, Parts, Operations and Scope

A practical work on THE FOREIGN BANKING
DEPARTMENT AND ITS ADMINISTRATION
BY AMERICAN BANKERS

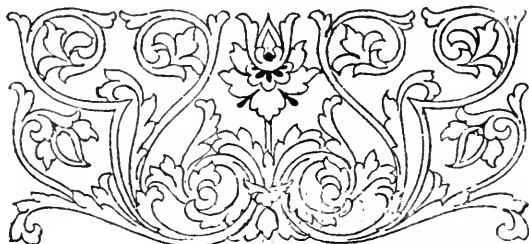
By ANTHONY W. MARGRAFF

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Associated for about twenty years with the Foreign Department of the
Union National Bank of Chicago.

REGISTERED

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INTERNATIONAL EXCHANGE
POST OFFICE BOX 177, CHICAGO



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PREFACE.

THE paucity of text-books on INTERNATIONAL EXCHANGE, combined with their urgent need to meet the constantly increasing American international trade relations, has given rise to a desire to place before the public a volume containing general practical information upon Foreign Exchange; and at the outset it would seem after examination that the adjective

International more accurately expresses the basis of, more properly defines the limits of, and more clearly presents the character of exchanges between Nations than the word Foreign, and for these reasons the Author justifies his substitution of International for Foreign in the present Title.

The constant aim of the Author herein has been to draw comparisons and submit illustrations, wherever this course was deemed expedient, to better and more clearly demonstrate the practical hypotheses of the various examples presented within these pages.

INTERNATIONAL EXCHANGE purports to deal with its terms and component parts, and to introduce an explicit exposition of a modern Foreign Banking Department from its inception to its daily actual operations as conducted by American banking institutions.

The elimination so far as possible of all technical terms and phrases will appeal both to the layman and the student of finance for whom the succeeding pages are aimed to be presented in a readable and digestible form; the Author hopes that his efforts to work out his subject-matter free from such terms and phrases may attain and merit success.

International Exchange in a concrete sense furnishes a theme of vast scope, and its teeming literature would fill a

library; the production of a concise treatise embracing the essentials requisite to a general practical knowledge of Foreign Exchange within a space of comparatively few pages, limits necessarily fuller exposition.

Any abridgment herein therefore of the text should be construed to a desire to include the essentials within a book, not too large, for ready reference.

During the period of several years last past, the Writer with the present book in contemplation has had the honor of informally discussing European banking methods with Messrs. Christopher R. Nugent, Manager of The Union Discount Company of London, Limited, London; G. Zwitmeyer, Director der Deutschen Bank, London; Arnold Ellert, Dresdner Bank, London; Herbert M. Gutmann, Dresdner Bank, London; Conrad Hinrich Donner, Hamburg; Paul Herzog, Hamburg; and Maur Philipson, Stockholm.

To Mr. Howard K. Brooks of Chicago due acknowledgment is made for the use herein of Chapters XXV and XXVIII, entitled "Conversions" and "The Monetary Units and Moneys of all the Countries of the World," respectively, from his work on "Foreign Exchange."

To the Directors and Officials of The National Bank of the Republic of Chicago for their courtesy in permitting the use of several specimen forms, and to Messrs. John A. Lynch and William T. Fenton, its President and Vice-President, respectively, for their personal consideration to the Writer, appreciation thereof is herewith expressed.

To my friend, Mr. Henry D. Baker of Chicago, I pay tribute for his many valuable suggestions.

ANTHONY W. MARGRAFF.

INTERNATIONAL EXCHANGE.

CHAPTER I.

SUPERIOR EARNING FACTORS IN EUROPEAN OVER AMERICAN BANKING.

THE banking profession as practised in the United States of America, compared with the system in vogue in European countries, especially in respect to the superior earning factors of the trans-Atlantic plan, differs vastly in many essential points.

A study of their manner of banking will reveal many able features that might be profitably employed by American bankers were their national banking laws amended to permit national banks to increase their field of operation. The very limited scope of business, authorized under the powers of the National Banking Act, has caused the organization of numerous trust companies, operating under state charters, within the last few years.

The system of central and branch banking has been the subject recently of extended and general discussion by bankers in and out of convention, and in common with every radical movement whose object is a departure from long-established lines of operation, **this progression toward creating branch banks** has received the support of many financiers and at the same time has met with the criticisms of their professional brothers, equally competent.

Conceding even the arguments adversely presented, admission must follow that this system as employed today by many of the foremost banking institutions of England, Germany, France, and Canada embraces many preëminent advantages.

The following tabulated figures show the capital, surplus, deposits, cash means and annual dividend rate of ten leading British joint-stock company banks as compared with a like number of prominent New York City banks:

British Banks:

NAME OF BANK *	CAPITAL	RESERVE	DEPOSITS	CASH MEANS	DIVIDEND %
Capital and Counties Bank, - -	£1,210,000	£850,000	£23,912,944	£6,986,985	18
Lloyds Bank, - - - -	2,928,000	1,950,000	53,747,076	13,936,113	19
London and County Banking Company,	2,000,000	1,600,000	43,544,351	11,110,931	22
London City and Midland Bank, -	3,000,000	3,000,000	44,587,552	13,622,390	18
London Joint Stock Bank, - -	1,800,000	1,200,000	18,798,187	2,286,846	12
National Provincial Bank of England,	3,000,000	2,300,000	51,153,828	12,502,533	20
Parr's Bank, - - - -	1,708,500	1,708,500	26,602,519	8,322,613	20
British Linen Company Bank, -	1,250,000	1,600,000	14,719,227	2,224,943	20
Manchester and Liverpool District B. Co.	1,250,000	2,000,000	16,293,740	3,514,300	20
London and South Western Bank,	800,000	670,000	12,467,553	2,262,507	16
Totals, -	£18,946,500	£16,878,500	£305,826,977	£76,770,161	18 5
Equivalent in dollars at \$5 per £,	\$94,732,500	\$84,392,500	\$1,529,134,885	\$383,850,805	

* Read "Limited" after each Bank except British Linen Company Bank

Average Percentage of Cash Means to Deposits, 25 1/8%; Average Annual Dividend Rate, 18 1/2%

New York City Banks:

NAME OF BANK	CAPITAL	RESERVE	DEPOSITS	CASH MEANS	DIVIDEND %
National City Bank, - - -	\$25,000,000	\$15,448,063	\$151,424,392	\$72,816,580	6
First National Bank, - - -	10,000,000	10,000,000	87,987,071	29,721,379	20
National Bank of North America, -	2,000,000	2,027,729	20,394,388	10,228,334	8
Fourth National Bank, - - -	3,000,000	2,666,495	30,756,070	15,714,394	7
National Bank of Commerce, -	10,000,000	7,337,169	103,320,490	55,074,580	8
Hanover National Bank, - - -	3,000,000	5,753,116	81,811,905	42,473,282	10
National Park Bank, - - -	2,000,000	4,303,492	76,258,450	28,146,563	15
Bank of New York, N. B. A., - -	2,000,000	2,240,848	39,449,822	26,380,340	12
Gallatin National Bank, - - -	1,000,000	2,044,120	17,365,389	11,595,571	12
Seaboard National Bank, - - -	500,000	1,108,073	20,612,802	8,635,149	6
Totals,	\$58,500,000	\$52,929,105	\$629,380,779	\$300,786,172	104

Average percentage of Cash Means to Deposits, 47 79/100%; Average Annual Dividend Rate, 10 2 5/5%

The data of the above tables were compiled with the aid of The Banking Almanac (1903), published by Messrs. Waterlow & Sons, Limited, London, and The Financier of New York.

Ordinarily, money does not command as high a rate of interest in Great Britain as in the United States, and yet the above tables show that the average rate of dividend disbursed by the mentioned British banks was $18\frac{1}{2}$ per cent. annually to the average annual rate of $10\frac{2}{5}$ per cent. paid to the stockholders of the New York City banks.

The figures disclose also that the higher rate of dividend earned by the British banks is partially due to lower ratio of stock capitalization to deposits and reserve as compared with the figures of the New York banks.

The chief reason, however, for the better dividend is in the percentage of cash means against deposits. The aggregate amount of deposits held by the banks named in Great Britain was £305,826,977 = (@ \$5 per £) \$1,529,131,885, and £76,770,161 = \$383,850,850 in quick assets or $25\frac{1}{8}$ per cent; and

The New York banks named had aggregate deposits of \$629,380,779, and \$300,786,172 in cash means (quick assets) or approximately $47\frac{79}{100}$ per cent;

The smaller earning capacity of the New York banks is hereby forcibly illustrated.

The Bank of England.

A banking method devised to permit of safely employing so large a percentage of deposits in an earning capacity compels admiration; and the national position of the Bank of England to the various English banking institutions coöperates materially to that efficiency. The Bank of England is essentially a banker's bank wherein are deposited the cash reserve of the English banks. The proportion per cent. of reserve to total liabilities including Bank Post Bills of the Bank of England averaged $49\frac{6}{10}$ per cent. for the ten years beginning in 1891 and ending in 1900.

This serves to illustrate that instead of the individual London banks maintaining a large cash reserve, this end is accomplished by the Bank of England in its capacity as reserve agent for the individual London banks, jointly and severally.

The Bank of England is at all times fully prepared to make advances against satisfactory collateral, or re-discount approved acceptances at its minimum rate of discount. Facilities of this nature naturally create a feeling of stability and confidence among the English banking fraternity, and the protection and assistance at their command, in times of emergency, enables them to safely conduct their business on a smaller cash reserve basis, than is possible by bankers in this country without similar protection.

The Open Discount Market.

The Open Discount Market is another feature unknown to bankers on this side of the Atlantic. Through this medium English banks are in a position to employ loanable funds by the purchase of bankers' or prime merchants' acceptances and hold in their portfolio until maturity, or re-discount such acceptances in the open market at any time cash funds may be required.

The practice of re-discounting paper in the open market is not only customary and in constant operation, but constitutes one of the important branches of banking throughout Europe. In London there are numerous discount houses whose specialty is to discount paper.

There are various reasons why the custom of re-discounting bills, as in vogue by European bankers, should strongly commend itself to the American banker, who, unfortunately, at the present day, is not offered the advantages afforded by that system.

In the American States, it is so universal to hold paper discounted for clients until maturity, that bankers hesitate to offer paper for re-discount, although their requirements for cash funds, during the life of the paper discounted, may become very acute. Even commercial paper, purchased from brokers, is usually held by the purchasing banker until maturity, and a re-sale of the paper, prior to maturity, is resorted to reluctantly.

The Acceptance Account.

In addition to the facilities referred to whereby trans-Atlantic bankers are enabled to keep a much larger percentage of their deposits, capital and surplus employed, than bankers in this Country, their larger earnings are due also to the Acceptance Account being a source of revenue that is entirely foreign to American bankers. American national banks are prohibited from accepting time drafts, consequently, this branch of banking is unknown in America, whereas it embraces a very important factor of European banking transactions of a highly remunerative nature. The commission charged for accepting drafts, depends upon the life of the acceptance, the financial responsibility of the clients on whose account acceptance is given and the stability of the collateral security, if any, underlying the transaction.

The fundamental principles upon which banking is conducted in the European continental countries are practically identical with those obtaining in England. The functions performed by the Bank of England in its dealings with the English bankers are fulfilled in

Germany by the Imperial Reichsbank;
France by the Bank of France;
Holland by the Netherland's Bank; and in
Belgium by the Bank of Belgium.

The Giro Conto Transfer.

The Imperial Reichsbank of Germany has branches in every important city throughout the German Empire. No interest is allowed on balances by this Bank, nevertheless, it conducts an account of practically every bank and merchant of standing in Germany, owing to facilities accorded to its depositors. **One of the most valuable facilities afforded by the Reichsbank to its clients is the gratuitous transfer of money by its system called the Giro Conto Transfer, whereby a merchant in Berlin can transfer money to, let us assume, a firm in Chemnitz.**

The operation is simplicity itself. The Berlin merchant deposits with the Reichsbank at Berlin, the amount he wishes transferred to the Chemnitz firm. He receives a receipt from the Reichsbank for amount deposited, and the bank merely instructs its branch office, at Chemnitz, by mail, to transfer to the credit of the account of the Chemnitz firm, for account of the Berlin merchant, the required amount under advice. The entire transaction is a matter of simple bookkeeping. Should the transfer be executed by telegraph, a fee covering telegraphic expense is exacted of remitter.

Premium or Discount on Exchange Unknown.

As money can be transferred in this manner to any city in Germany where a branch of the Reichsbank is located, **premium or discount on exchange, between the different German cities, as for example in this Country between New York and Chicago, is unknown.**

A directory published in Germany giving the names and addresses of all depositors in the Reichsbank throughout the Empire serves the purpose of ascertaining the names of its depositors, and whether, or not, money can be transferred by the aid of the **Giro Conto System.**

The United States of America is greatly indebted to the banking systems of Europe, and, particularly with respect to the discounting of bills of exchange, we must, in part, attribute our steady and increased growth of international commerce.

Were the bankers of the United States not afforded the facilities of discounting in the foreign money markets the bills of exchange purchased from domestic exporters, cis-Atlantic bankers would soon be compelled to cease negotiating this class of paper for their clients, as they could not afford to employ the vast sums of money required were bills to be held until their maturity, or retired prior to maturity at the pleasure of the drawees.

Summary.

The salient issue presented in this Chapter may be summarized in this way: were the earning factors mentioned of the European system incorporated into the American banking plan would not those active factors increase the American dividend rate?

A comparison of the declared dividends is not intended to prove the relative actual productive efficiency of the individual London and New York banks mentioned, the intention being rather to show that the English features tend greatly to build up dividends for English banks.

The actual net profits of New York banks no doubt go to swell the surplus fund and the remainder of the net profits furnishes the declared dividend; and that the actual and declared dividends of the English banks equal each other may or may not be true; in other words, the respective board of directors to each bank dictates what per cent. dividend shall be paid by its arbitrary and elective action, assuming such action of course to be within the law.

The National Banking Act.

To divert for a moment and express appreciation for the transformation from the first Bank of the United States to the present national banking associations: its history discloses in its early development the system of **political banking** with its **offensive** branch features productive of wrecks caused by dishonest officials and the gradual weeding out of such evils until the present efficient National Banking Act, conceded the best body of banking laws Americans have enjoyed; and justification may be made of the strictness of the National Banking Law now in force for the all important protection of the depositors and stockholders in the national banks of the United States of America.

CHAPTER II.

THE FOREIGN DEPARTMENT.

DURING the past few years, through diligent and persistent work, The Foreign Department has, step by step, attained high eminence in the banking profession, and the gradually-increasing views disclose larger subject-matter and an ever-increasing base for its operations.

Few national banks comparatively had heretofore Foreign Departments, and international exchange transactions were generally handled by New York private banking institutions that made a specialty of this class of business. The enormous and steady growth of our American foreign trade relations secured for those private bankers an immense volume of business of a very profitable nature, and when the bankers throughout the country began to realize these conditions, they, one by one, annexed Foreign Departments to their respective institutions. The recognition of their importance was so universal that we find today, practically, every bank of prominence operating Foreign Departments in conjunction with their banking business.

The exporters and importers especially, and the whole community of the United States of America have been the beneficiaries through this movement of commercial expansion to the increased facilities for the administration of their requirements, and—a gain of far greater importance—the advantages of **competition** created by a broad market.

Competition between the banks in their eager desire to transact business enables the exporters to sell their foreign bills of exchange at a **higher** price, and the importers and the general public to purchase their drafts at a **lower** price than formerly. The effect upon the interests of the bankers may be appropriately termed that of a whipsaw, and the struggle will doubtless continue while the supply of Foreign Departments exceeds the demand of business—just the same as **competition** exists in the desire to dispose of any commodity when by

a condition of overproduction, the supply as compared to consumption exceeds the demand.

The business outlook on that basis would indeed be discouraging to the average banking official and might have induced him ere this to abandon The Foreign Department, were it not for the recognized fact that there are manifold benefits, direct and indirect, accruing to the bank proper through the medium of this department, as follows:

The Foreign Department

I. Affords facilities to the general clientage of the bank to transact all its banking business with the bank, thereby avoiding the possibility of losing a profitable account that is open to successful solicitation by a competitor;

II. Serves as a valuable auxiliary through the medium of advertisements and personal invitation to attract depositors;

III. Commands prominence of the name of the bank among New York bankers, by whom its foreign exchange is purchased, and among bankers throughout the entire world, with whom accounts are kept, and by whom drafts against its Letters of Credit are negotiated;

IV. Practically converts the bank into an international banking institution, thereby vastly increasing its field of operation, by placing it in close touch with the long-established monetary centers of the world, whose actions, though distant, are closely allied to the interests of the American banker;

V. Establishes a bond of friendship with the master financiers of the old world who, periodically, visit their American friends, and whose opinions, particularly, covering the financial outlook of the United States, as reflected in their respective countries, constitute a source of information of very great value to the American banker;

VI. Affords the bank an opportunity of placing loans, at remunerative rates of interest, in the European money markets when favorable conditions prevail, by the purchase of "Foreign Bills of Exchange as an Investment," or permits the bank to borrow money at favorable rates in the money markets of the world by issuing "Finance Bills"—banking features employed and fully outlined and explained in the chapters devoted to those operations; and

VII. Places the bank in a position to subscribe for portions of European national loans, as foreign correspondents usually invite their American friends to engage in underwriting these loans, thereby affording them an opportunity of participating in the profits usually arising by premiums being established for the issues subsequent to allotment—witness the case of the recent British Transvaal loan that netted the underwriters a premium or profit of about one per cent. within ten days after allotment.

The foregoing are merely the incidental and contingent benefits accruing to the bank through the instrumentality of The Foreign Department. The essential object of The Foreign Department, however, is to assist in the earning of profits by the transaction of business confined within its province.

The Foreign Department should not experience any difficulty, when managed upon proper lines, in reaping dividends, competition notwithstanding, and should earn a fair rate of interest on the money employed.

And what constitutes a fair rate of interest? Essentially, the character and stability of the protection against loss and the availability of liquidation of the security representing the principal underlying the investment on which the interest is earned. The logical hypothesis of which is set forth in the following comparison:

While the rate of two and one-half per cent. per annum would be considered a fair rate of interest on an investment in **United States bonds**, being absolute in security and availability, six per cent. per annum would be termed a fair rate of interest on an investment represented by **corporation bonds** of a lesser degree of security and convertibility.

The investment of funds through the channels of a conservatively-managed foreign department is practically analogous to an investment in the highest class of securities when the fundamental collateral—hypothecated by the drawers of documentary bills of exchange as a protection against loss and convertible into cash by a process of liquidation through sale of foreign exchange—compares favorably with bond investments and possesses the conspicuous advantages set forth in the succeeding pages.

Collateral Security, Hypothecated by Drawers of Documentary Bills.

The merchandise—constituting the underlying security for documentary bills and being the property of the banker purchasing the respective bills of exchange—is comprised of staple commodities such as grain, flour, tallow, oleomargarine, cotton-seed oil, provisions, etc., and have a ready market in all parts of the world and can be readily realized upon without sacrifice in case of emergency.

Bills of lading with this security are surrendered only by the banker on actual payment of the accompanying draft, or upon the acceptance of the draft by a banker or merchant of the highest standing, so the purchase of documentary bills of exchange in reality, is practically, the equivalent of buying merchandise of exporters for resale in foreign markets.

An additional security to the banker is the financial responsibility of the drawer and endorser, if any, and their continuing liability does not cease until payment of the bill of exchange.

Convertibility Into Cash.

All foreign bills of exchange except documentary payment bills on Great Britain are discountable in foreign money markets, a banking feature embodied in a subsequent Chapter, and in consequence **time bills** can be treated in the same manner as cash remittances, and checked against, at the pleasure of the remitter.

A very large foreign exchange business can be therefore conducted on a comparatively small working capital. The elasticity of the operations confined to the workings of The Foreign Department have no parallel compared with banking as practised by American bankers at the present day.

A very broad foreign market has been established by the bankers in New York City, and for that reason, bankers' checks on their European correspondents can at all normal times be sold in that market with as much ease and dispatch as, for example, the sale of New York exchange in Chicago.

Credit balances—created on the books of The Foreign Department—in the hands of European bankers are in fact just as available as if placed in the custody of domestic correspondents.

A notable and salient point is the fact that the purchase of every bill of exchange, payable in European countries, is equivalent to a purchase of gold, because all of these countries are now on a gold monetary basis.

While in times of quietude that feature is only a matter of **sentimental** value, it is not beyond a possibility that foreign exchange bankers may again experience its **intrinsic** value as exemplified during the panic of the year 1893, when American bankers with London connections imported large amounts of gold and then of paramount value.

It is true that during the crisis of that year, bankers may have experienced some difficulty in selling their foreign exchange, owing to the great demand for money at home, and mistrust in general, but that fact did not cause any embarrassment but on the contrary enabled them to obtain

at that time—gold—from their European correspondents shipped to the American bankers in payment of foreign bills of exchange, previously remitted.

Foreign exchange bankers were, at that time, in a position to secure gold, then refused even to holders of United States government bonds when there was no market for any bonds.

The writer's recollection of these established facts has prompted him to venture the assertion that the investment of funds through the channels of a conservatively-managed Foreign Department is practically analogous to an investment in the highest class of securities when the fundamental collateral—hypothecated by drawers of documentary bills of exchange and convertible into cash—does not suffer by comparison with bond investments, and on the contrary possesses conspicuous advantages.

CHAPTER III.

FOREIGN EXCHANGE.

FOREIGN Exchange suggests, very likely, to those who have not given the matter attention, a ramification of intricate and technical international banking operations; an examination, however, of the term will disclose its comparatively simple actions and its freedom from such ramification.

It is true that this subject affords a broad field for research and study, but nothing within its pages is at all mysterious or incomprehensible or beyond a clear understanding.

In many of its essential elements "Foreign Exchange" corresponds to "Domestic Exchange," and as the names imply, the former treats with exchange operations of an international type, while the latter is confined to exchange transactions in this Country.

Foreign Exchange is bought and sold by the banker in like manner as the merchant buys and sells his wares. In its **tangible shape**, Foreign Exchange is an evidence of indebtedness represented by a negotiable instrument, the drawer or maker constituting the creditor, the drawee the debtor, and title thereto is vested in the payee.

The indebtedness underlying foreign bills of exchange is created in various ways: it may be issued against the value of merchandise exported, securities, or actual cash funds.

The major portion of foreign bills of exchange, however, are drawn against exports of commodities, and the following tabulated figures by the Commercial West, Minneapolis, from statistics furnished by the Bureau of Statistics of the Treasury Department at Washington, will be of interest and are subjoined:

The aggregate exports for the fiscal year ending June 30, 1903, were \$1,419,991,290; and the aggregate imports for the same period of time were \$1,025,619,127; being the highest on record and an increase of \$160,570,068 over the previous year.

To illustrate the phenomenal growth of our international commerce, the following data are submitted:

For the first time in the history of our foreign trade, the imports for the last year exceeded \$1,000,000,000; prior to 1870, the total was less than half that amount; and in 1890, the sum reached three-quarters of a billion dollars in value; and now for the first time, the billion dollar line has been passed.

The volume of exports shows a commensurate expansion: in the twelve months ending with June, 1903, exports aggregated \$1,419,991,290 against \$1,025,619,127 of imports, showing an excess of exports during the time of \$394,372,163.

Exports never reached the value of a half billion dollars in a single year until after 1870, and for the first time the three-quarters of a billion dollar mark was passed in 1880; and in 1892, the value exceeded \$1,000,000,000, and now the figures for the last fiscal year present the grand total amounting to the vast sum of \$1,419,991,290.

Were exports and imports of commodities the only factors to be taken into consideration in determining the American international trade balance, the Nation would have a credit balance of \$394,372,163 at the close of the last fiscal year; this, however, is not the case. The figures tabulated by the Treasury Department as shown above do not include the movements of gold and silver, nor is the value of the immense volume of securities incorporated. Securities are constantly undergoing a change of ownership, the sales and purchases for **foreign account** comprising a very important factor in foreign exchange operations and whereof no accurate record can be formulated.

The expenditures of Americans while travelling abroad, and the freight charges paid by the United States to European ship-owners for transportation of foreign commerce, and the large loans negotiated abroad through the medium of "Finance Bills," all tend to swell the bulk of foreign exchange transactions, and render any approximation of the

true proportions of the international trade balance of the United States of America impossible.

Of the total amount of \$1,419,991,290 of exports for the last fiscal year, it is estimated that Chicago and the territory tributary thereto furnished one-third, about \$500,000,000, represented chiefly by foreign bills of exchange drawn by the meat packing industries and grain exporters.

The benefits to be derived in participating in American foreign trade relations will doubtless induce every wide-awake bank to enter the field for the purchase and sale of foreign exchange, and as a matter of fact, few banks remain whose officials have not already recognized the necessity of conducting Foreign Departments to keep abreast with the times and to share in the profits and advantages incidental to this branch of the banking profession, promising to assume even larger proportions in the future than in the past.

CHAPTER IV.

DESCRIPTION OF BILLS AND COLLATERAL, with General Instructions for their Issue.

A GENERAL description of all foreign bills of exchange that the banker is likely to be called upon to purchase, in the course of business, follows. Documentary bills drawn on England, Germany, France, Holland, Belgium and other countries, at sight, or at three, ten, thirty, sixty or ninety days' sight, with relative documents to be surrendered on payment or upon acceptance according to the names of the drawees, and the instructions of the drawers, irrespective of the country where drawn, are exactly alike in each case; and it will suffice to treat one bill—the same principle applying—in each class.

Consider a sixty days' sight documentary bill on British merchants, the attached documents to be surrendered to drawees on payment of the respective bill, at maturity, or prior to maturity, under rebate, at the retirement rate of discount as explained in Chapter XVII.

The following is a specimen form of bills of that class:

Specimen Documentary Bill, Documents on Payment.

£——— HAMMOND, Indiana, ———, 19—.

Sixty days after sight of this **First of Exchange** (second unpaid), pay to the order of ———, the sum of ——— Sterling. Value received, and charge to the account of

HAMMOND PACKING COMPANY,

To JOHN MCNAIRN & CO., By ———.

No. ——. Glasgow, Scotland.

The following shipping documents accompany such bills:

Bills of Lading.

Export, generally termed "through" bills of lading are issued by railroad companies carrying merchandise from

interior points to the seaboard in conjunction with steamship lines carrying merchandise from seaboard to destination abroad.

Bills of lading should always be made out to the order of the shippers, and by them endorsed in blank, so that the title to the underlying merchandise is an unimpaired lien in the possession of the holder of the lading. Documentary bills, having as their security bills of lading attached, to the order of the consignees, should **not** be accepted, and **observe** that holders of such ladings will not have a lien on the merchandise that could be obtained by consignees without the presentation and surrender of ladings when the goods are consigned direct to their order. Of course, lading issued to the order of the banks purchasing the appertaining bills of exchange, and then endorsed in blank by them, would convey the possession of the merchandise to the holder of the lading, but this course would compel the exporter or drawer to sell his exchange to the bank named in the lading, and would not give him the benefit of selling his bill to the **highest bidder**. Bills of lading are issued in two or three parts (duplicate or triplicate) the exact number of copies issued always appearing on the face of the lading.

Great care should be taken in demanding the **full set of ladings** from the drawers of appertaining bills of exchange, and so secure complete control and ownership of merchandise covered by the lading.

Grain is shipped occasionally *via* the Great Lakes and Welland Canal to Montreal or Quebec covered by inland ladings to those cities and there to be exchanged (in lieu of inland ladings) for ocean ladings issued by steamship lines.

Live stock from interior points is never exported on export or **through** bills of lading, but is covered by inland railroad ladings that are exchanged at seaboard for ocean ladings because steamship lines insist on careful inspection of live stock to be carried by them, before issuing ladings covering shipments.

Hypothecation Paper.

Hypothecation Paper authorizes the banker purchasing foreign bills of exchange to sell to best advantage the merchandise securing any bill of exchange that has been refused payment, and such document was, in former days, attached by the drawers to each and every bill of exchange. The clerical labor and postage involved have, in recent years, been obviated by the prior execution and delivery of a **General Hypothecation Power** to the banker so constructed as to apply to all bills of exchange issued and sold from time to time to him by his drawer.

A specimen form of the modern **General Hypothecation Power** is subjoined:

Bills of Exchange.

TO THE NATIONAL BANK OF THE REPUBLIC,
Chicago.

To the Cashier:—Anticipating all future sales to you of bills of exchange with shipping documents for goods and produce attached as collateral security and held by you for their due payment, we agree as follows, to-wit:

You may insure any goods and produce forming the collateral security (if not already insured, and the policy or policies deposited in your hands), from sea risk, including loss by capture, and from fire on shore, and add the premiums and expense thereof, to the amount chargeable to said bills, but it shall not be imperative upon you to effect any insurance;

You may sell any portion of the goods and produce aforesaid by you deemed necessary for payment of such premiums, expenses, freight and duties, take such measures generally, make such charges for commission, and be accountable in such manner, and not further or otherwise, as in ordinary cases between merchant and his correspondent;

You may take conditional acceptance to such bills to the effect that on payment, thereof, at maturity, or under discount, the documents handed to you as collateral security

shall be delivered to the acceptors, and this shall extend to acceptances for honor;

In case default be made in acceptance of the said bills on presentation, we agree immediately, on receiving notice from you that you have been advised by telegraph, or otherwise, of such non-acceptance, and without waiting for, or requiring the protest of said bills, to pay you the amount thereof with all charges of every description incurred by you in consequence of such non-acceptance, or give you satisfactory margin in cash or securities, all in addition to your possession in the United Kingdom or elsewhere of the goods and produce securing said bills, or the documents therefor; and we further agree that your account of the disbursements, commission and charges so incurred shall be received by us as sufficient and final evidence thereof;

In case default be made in acceptance or payment of any of the said bills, or if the drawees or acceptors should suspend payment, or be adjudicated bankrupt, or execute any deed of arrangement, composition, or insolvency, or take any other step whatsoever toward effecting a compromise or arrangement with their creditors during the currency of the said bills, you may at any time after any of the aforesaid events taking place, sell the goods or any part thereof, without notice to or the concurrence of any person whomsoever, without waiting for the maturity of the said bills, and either by public auction or private sale, and you may act in all respects as if you had been the direct consignee of the goods and produce, charging such commission as is usual between a merchant and his correspondent in ordinary cases, and shall apply the net proceeds of any sale, after deducting any payment under the powers herein contained, with interest thereon, and the usual commission and charges, in payment of the bills with interest, reëxchange and other charges, and may apply the balance, if any, toward the liquidation of any debt and liability of ours to you, whether or not the same be then payable or ascertained, it being hereby agreed that the goods themselves, until sale, shall be liable for and be charged with the

payment of all such bills, with commission, interest, reëxchange and other charges, debts and liabilities; and we agree that all account sales and accounts current furnished by you, in respect of the said goods and produce, shall be received by us as sufficient and final evidence of their accuracy;

We further authorize you, in case the net proceeds of the sale of such goods shall be insufficient to pay the amount of the said bills, with disbursements, interest, reëxchange and charges, to draw upon us at the exchange of the day for the amount of such deficiency, and we engage to honor such drafts on presentation, or to pay you the amount of such deficiency when notified of the amount;

In case the aforesaid Power of Sale shall not have arisen during the currency of the said bills, you may accept payment from the drawees or acceptors, thereof, and on payment, deliver the said bills of lading and shipping documents to such drawees or acceptors;

In case the drawees or acceptors should wish to secure delivery of any portion of the goods held as collateral security for the said bills before maturity thereof, you are authorized (but not so as to be binding on you) to make such partial deliveries on receiving payment of a proportionate part of the said bills;

The said delivery to you of the collateral securities aforesaid shall not prejudice any of your rights in and to said bills in case of dishonor, nor shall any proceedings taken on said bills prejudicially affect your title to the said securities;

All rights, powers and authorities hereby given you shall extend to and may be exercised by the holders, for the time being, of the said bills and shipping documents;

It is understood that in the event of bills being paid under discount, rebate of interest shall be allowed as follows:

One-half per cent. per annum in addition to the advertised rate of interest for short deposits allowed by the leading London joint-stock banks if the bills are taken up in the United Kingdom of Great Britain and Ireland; and

The current minimum rate of discount of the national banks of France, Italy, Belgium and Germany, respectively, if taken up respectively in those countries.

Chicago, Illinois, October 1, 1903.

Certificates of Marine Insurance.

The collateral merchandise attached to foreign bills of exchange should be fully covered by marine insurance, either by the drawers or the drawees of the respective drafts.

The evidence of the insurance, when effected by the drawers, is represented by the **Insurance Certificate** and should accompany the draft. These certificates are issued by the **exporters** under open policies of insurance issued by the various marine insurance companies, one copy of the policy is retained by the company and one copy remains in the possession of the exporters to whom the policy was issued. This method of placing marine insurance risks simplifies matters very much: the certificates are issued without delay by the exporters and by them merely advised to the companies, their premiums being paid periodically.

Insurance certificates, like bills of lading, should always be made out to the order of the shippers (or drawers) and by them endorsed in blank, so that the loss, if any, may be collected from the insurance company by the holder of the certificate.

The amount insured should cover the approximate equivalent of the relative bill of exchange, and in many instances, exporters place insurance for an amount in excess of invoice value of appertaining merchandise to be protected for the **profit** on the transaction, as well as the intrinsic value of the goods, in the event of loss.

Frequently, merchandise, covered by bills of exchange, is insured against marine loss by the purchasers abroad or the drawees of the drafts, as they may be in a position to place the risks at lower premium, then no certificate of insurance

will accompany the respective draft, but a written statement executed by the shippers or drawers reading **Insurance Effected Abroad** should in such cases be attached to the draft.

Insurance certificates are not necessary to cover **inland risks** because railroad companies as common carriers are liable for any loss sustained while the merchandise remains in their custody for transportation from interior points to seaboard and so expressed in their bills of lading.

Shippers' Invoice.

The major portion of documentary bills of exchange have attached to them a shipper's invoice, giving the price for the merchandise sold, the gross and net weights, incidental expenses, such as freight, insurance, etc., (if same are to be paid by purchaser), terms of sale, etc. This document, however, is not essential to the complete bill of exchange and may be **forwarded direct** to the purchaser or drawee by the exporter, or, as in many instances, may be attached to the draft in a sealed envelope addressed to the purchaser, to avoid publicity.

The question may be asked—How is the purchasing banker enabled to ascertain that the amount of the foreign bill of exchange bought by him is not drawn for an amount **in excess** of the invoice value when no open invoice is attached to the draft for his guidance? The reply is that the invoice may be of no value when given by a dishonest exporter who may **bill the goods** as he sees fit possibly to mislead his banker.

The banker may verify the amount of drafts issued against any shipment by examination of the relative bill of lading, ascertain the description of the merchandise shipped and compute the value by applying the market price of the commodity as quoted on the various exchanges or obtain the current quotations for the goods shipped from other disinterested clients pursuing the same business.

We **emphatically** conclude that foreign bills of exchange with ladings are better **with** than **without** the good **mora!**

standing of the drawers, and that literally "A word (without) to the wise is sufficient."

Inspection Certificates, Weight Certificates, and Consular Certificates.

Besides the foregoing documents: documentary foreign bills of exchange—drafts drawn against shipments of beef and pork meats usually are accompanied by government certificates of inspection,* also, when requested, by board of trade official inspection and weight certificates.

Supplementary to the above, foreign bills of exchange covering shipments of other commodities must be accompanied by documents as specified below:

DRAFTS ON	GOODS:	DOCUMENTS REQUIRED:
Germany:	Casings, Hair, Bones,	Certificate of Origin. Consular Certificate. { Consular Certificate and Government Inspection Certificate.
Russia:	Casings,	{ Consular Certificate and Government Inspection Certificate.
Italy:	Meats, Hair, Hides, Hoofs and Lard	Government Inspection Certificate. { Consular Certificate.
Holland:	Casings and Bladders, Hair,	{ Consular Certificate and Government Inspection Certificate. Consular Certificate.
Belgium:	Casings, Hair,	Certificate of Origin. Consular Certificate.
Japan:	Soap, Hides, Feathers, etc.	{ Consular Certificate.
Norway and Sweden:	{ Oleo Oil, Neutral Lard,	{ Certificate of Origin and Government Inspection Certificate.

* Frequently Inspection Certificates are attached to the boxes holding the merchandise.

CHAPTER V.

FACTORS AND CONDITIONS INFLUENCING FLUCTUATIONS IN EXCHANGE RATES.

THERE is no commodity so sensitive to fluctuations in price as Foreign Exchange, and that fact accounts for the constantly varying quotations.

Notwithstanding the instability of value, fluctuations can always be attributed to some logical reason, therefore, a banker ambitious to become preëminently successful in his field of operations will not content himself by merely being in touch with the current market quotations but will analyze the why and wherefore of every material advance or decline in price.

The merchant who confines his lines of operations upon established facts, thereby buying or selling his wares upon a basis of valuation adjusted to conditions or circumstances that have already transpired is never so successful as the merchant who has the perspicacity to anticipate these conditions, thereby enabling him to compute or discount the probable effect upon the market, and the ability to do so, should in no wise be characterized as speculative, but should earn the coveted term of "a business man of practical experience."

Just so with the banker, the way this knowledge can be acquired is only through conscientious and close application to a study of the various factors that govern the vacillating quotations for Foreign Exchange.

That the natural law of supply and demand is the fundamental basis of value for every commodity is axiomatic.

We must next determine the conditions creating the supply and demand as they are the direct causes of fluctuations in value.

**Conditions Creating an Abnormal Supply of Foreign
Bills of Exchange and Having the Natural
Tendency to Depress Prices :**

I. Drafts drawn against the exportation of cotton constitutes one of the principal sources of supply of foreign bills of exchange; wheat, corn and other cereals also contribute largely to this supply;

Those exports are principally made during the months of August, September, October and November, and at that period of the year, foreign exchange rates are invariably lower than during any other time;

II. Heavy purchases of American securities by European houses on the New York Stock Exchange, or from bankers direct, also create unexpected abnormal supply of bills as the payment for the cost of these securities is usually obtained by issuing drafts upon the purchasers that are sold in the open market;

III. High interest rates in New York City for money is another factor that furnishes abnormal supplies of exchange for the reason that bankers having international relations withdraw their balances held by European correspondents for employment at home, by checking upon them to the extent of their credit balances, or by the issuance of "Finance Bills" drawn at sixty or ninety days' sight against loans negotiated with their foreign friends.

**Conditions Creating an Abnormal Demand for Foreign
Bills of Exchange and Having the Natural
Tendency to Advance Prices:**

I. Subscriptions by American bankers and capitalists for European government bonds, or other securities, and paid for by checks on foreign countries;

II. Amounts required to liquidate maturing loans created by the issuance of "Finance Bills" drawn at sixty or ninety days' sight on European correspondents;

III. Sales of American securities on the New York Stock Exchange (or to bankers direct) by foreign investors, and paid for by remittances drawn on foreign countries.

Heavy Demand for Bankers' Bills.

A scarcity of documentary foreign bills of exchange (at a time when documentary bills are generally in abundant supply)—consequent upon a short crop or increased demand for home consumption of the commodities that otherwise would have constituted the underlying shipments for export—may derange the prices for exchange during the entire season by creating a heavy demand for Bankers' Bills to meet commitments or requirements abroad, when their liquidation had been planned by the purchase in due course of time of documentary bills.

Gold Exports Temporarily Checked.

The foreign exchange market is too broad, and contingent upon too many factors to permit of successful "manipulation" of quotations. This fact, however, might not deter a very prominent international banking house from attempting to prevent Gold Exports temporarily, by offering to sell large amounts of Sterling checks at a time when the price is hovering around the export rate, when it might be heavily "long" on stock deals, hoping in that way to liquidate its stock transactions before the stock market had been weakened by gold exports that generally bearishly affect stock values. The foregoing operation might result in a loss on the exchange transaction, but that loss would be more than offset by the profit on the stock deals.

The principal elements having a direct bearing upon the values of foreign exchanges have been enumerated, and the indirect or circuitous factors governing the fluctuations of prices for the continental exchanges are fully discussed in Chapter XXVI, on "Arbitrage Transactions."

CHAPTER VI.

FINANCE BILLS.

FINANCE Bills constitute one of the most important features of international banking operations and in consequence command paramount attention. Indeed, the immense development of American industries within the last decade was accomplished through the expenditure of enormous sums of money raised principally by American Finance Bills.

The millions and millions of dollars thus secured have been expended by railroad companies and other corporations in the improvement of their respective lines, rolling stock and manufacturing plants.

The millions thus spent are reflected by the increased capitalization represented by the stock and bond obligations of those companies and corporations. And while it is true that a very large percentage of these securities were immediately purchased for investment by American institutions and capitalists, still, it can not be denied that European bankers, particularly English, assisted us, very materially, in financing these gigantic deals, by the outright purchases of these securities for investment, or by the negotiation of loans, secured by the hypothecation of the various new issues of stocks and bonds.

To give an idea of the vast amount of money borrowed by American bankers from the European bankers, let us mention in this connection that the aggregate amount of outstanding Finance Bills representing our indebtedness for loans of this nature, was, at the beginning of the year 1903, approximately, estimated at from three hundred to five hundred millions of dollars.* It is a very difficult task, especially for an American banker, to accurately estimate the amount, as the Finance Bills are drawn by so many

*The outstanding American Finance Bills have been materially reduced during the current year.

different bankers, and are not necessarily placed upon the market for sale in their original form, but are converted into checks and demand drafts by a process to be elucidated further on, consequently, their identification is concealed and no data can be tabulated in America as a guidance of the amount issued.

The London banking institutions are designated and accept as drawees the greatest number of Finance Bills, and thereby the position of the English banker is generally greatly facilitated in arriving at estimates. The approximate amounts of Finance Bills just mentioned were furnished the writer during personal interviews, early in the year 1903, with the Manager of one of the foremost London discount houses, and with a Director of one of the largest German banking institutions located in London. An astonishing fact, and one that can not be appreciated too highly by every American citizen, was imparted to the author by the said Director: "That the American Finance Bill possesses the peculiar distinction of being the only bill of its type that can be discounted in the English money market," adding in a jesting manner, "and the reason for this was due to the odor of freshness and security with which the American Finance Bill becomes permeated during its trans-Atlantic voyage."

The credit enjoyed by the American nation in England is gratifying, and speaks well of the integrity, business acumen and fidelity with which the obligations and commitments of American bankers have been discharged to have fostered this confidence and good-will.

The American Finance Bill.

We proceed to explain the manner in which these Bills are drawn, the purpose of issue, and the advantages accruing to the drawers and the drawees, respectively:

The Bills are drawn at thirty, sixty or ninety days' sight by American banking institutions upon their European correspondents. They are not necessarily drawn in pounds

Sterling upon London bankers, but may be issued in marks upon German bankers, or in francs upon French bankers. By far the largest portion are drawn upon London, and we will confine our analysis to the **Sterling Finance Bill**.

These bills are usually covered by collateral security in the form of stocks and / or bonds listed on the New York Stock Exchange so that in case of need, the collateral can be readily realized upon without sacrifice.

The factor of security is purely a matter of negotiation between the drawers and drawees (acceptors) of the Bills; thus any good collateral will be acceptable to the drawees, and in many instances no security may be required where the financial standing and responsibility of the drawers are deemed ample protection against loss by the drawees. Drawees generally charge a commission for their obligations as acceptors of Finance Bills, the rates per cent. varying from $1/16$ to $1/4$ according to the tenor of the bill, the financial responsibility of the drawers, the character of the underlying security if covered, and the contingent risk if no collateral security is given.

The conditions under which it may become advantageous for the banker to put out Finance Bills are quite diversified, and may present themselves at any season of the year. To illustrate:

High Local Interest Rates for Money against Low Interest Rates in London.

It frequently occurs that money is in brisk demand for home use at six per cent. (or higher), while bills can be discounted in London at, say, three per cent. per annum (or less), so that, notwithstanding incidental expenses, such as commission and British Bill Stamps, to which Finance Bills are subject, money can be borrowed in London and employed at home at a profit, as will be seen from the following transaction based on the terms and conditions following, to-wit:

	PER CENT.
Commission charged by drawees for acceptance,	1/8
British Bill Stamp (1 shilling 100 pounds),	- 1/20
Discount rate in London,	- - - - 3
Local interest rate,	- - - - 6
Tenor of Finance Bill, 90 days' sight;	
Amount of Bill £10,000, approximately \$50,000.	

EXAMPLE I.

A Finance Bill, issued upon these terms, would give the following result, for three months, or quarter year:

	ANNUAL PER CENT.
Commission, 1/8%,	- - - - 1/2
British Bill Stamp, 1/20%	- - - - 1/5
Discount rate on bill in London,	- - - - 3
Total cost of loan,	- - - - 3 7/10

or \$462.50 for 90 days on \$50,000;

Then, if the drawer of this Bill could employ this \$50,000 for the entire ninety days by making a time loan to a client, or in other ways, on \$50,000 for 90 days at six per cent. there would accrue \$750 in interest, yielding a net profit of \$287.50 on the deal.

There is only one element that might operate against him, that is, he might be compelled to pay a higher price for his Sterling drafts required for the liquidation of the loan at maturity than the price at which he sold his Sterling at the time the Finance Bill was issued. To eliminate this speculative feature, the conservative banker immediately endeavors to and almost invariably can purchase the requisite amount of London checks for "cover" during the life of the Finance Bill (ninety days from date of issue) as explained in Chapter IX, devoted to "Bills of Exchange Bought and Sold for Future Delivery," so that we can say, he is practically immune from loss in this direction.

Another circumstance actuating a banker to issue Finance Bills can be attributed to an advantageous sale of checks on London at a time and under propitious circumstances—when “Short Sales” have every indication of profit—in the form of obtaining a cheap loan:

No time or condition can better serve to illustrate an operation on those lines than exist at the present writing when the following actual conditions are prevailing:

June 2, 1903:					PER CENT.
Discount rate in London,	-	-	-	-	3 1/4
Commission for accepting draft, say,	-	-	-	-	1/8
British Bill Stamp,	-	-	-	-	1/20
Checks on London are selling, at \$4.88 1/4 per £.					

On that basis, the parity of exchange of a ninety days' sight Finance Bill would be \$4.83 3/8 per pound Sterling, and is obtained in the following manner:

Discount, 93 days at 3 1/4% on say £100 (\$485)	\$4.02
Commission for accepting, 1/8%,	.61
British Bill Stamp, 1/20%.	.24
Total charges on £100,	\$4.87

or, say, 4 7/8 cents per pound Sterling;

Price for demand drafts or checks on London,	\$4.88 1/4
Less total charges on 90 days' Finance Bill	
for conversion into checks, by discounting,	.04 7/8
Parity of exchange 90 days' bill,	\$4.83 3/8

the rate at which the drawer would credit his London correspondents upon whom the Finance Bills are drawn.

Let us suppose that the banker has issued a £10,000, ninety days' Finance Bill, as above, and forwarded to his discount

correspondents in London for discount, the proceeds to be placed to the credit of his account, and has simultaneously drawn there against his check on London for £10,000, thus realizing at the rate of \$4.88 $\frac{1}{4}$, or \$48,825 on June 2, the day of sale.

The Finance Bill will be accepted to mature in London about September 15. By reference to Chapter V, it will be observed that there is always an abundance of documentary exchange in the market in September owing to the export movement of cotton, grain, etc., and that the prices for foreign exchange are generally lower at this time than at any other period of the year, so that it is quite safe to assume that demand drafts can be purchased for "cover" at maturity of the Finance Bill for delivery, say, September 1 (fifteen days prior to maturity), at a much lower price than \$4.88 $\frac{1}{4}$. Bankers are so positive of this fact that they are willing to sell now (June 2) checks on London deliverable on September 1 at \$4.86 $\frac{1}{2}$ per pound Sterling.

Although London checks could probably be bought on September 1 for less than this price, let us assume that the drawer of the "Finance Bill" desires to secure cover in advance at \$4.86 $\frac{1}{2}$ and consummate the entire transaction.

EXAMPLE II.

To determine what the loan of \$48,825 (proceeds of £10,000) for 90 days has cost, we figure:

Charges for converting Finance Bill into			
London checks, as shown above			
\$4.87 on £100, or on £10,000,	-	-	\$487
Less difference of \$175 between price			
realized on June 2 for £10,000,	-		\$48,825
And price paid for cover (delivery on			
September 1),	-	-	-
			48,650 175
Net cost of loan for 90 days,	-	-	\$312

that is, approximately, 2 $\frac{1}{2}$ % per annum.

**Against High Class Bonds or Stocks Purchased by
Bankers for Investment During the Period of
Cheap Money, that May Show Deprecia-
tion of Value, Resulting in Reluct-
ancy to Sell at a Sacrifice.**

Another instance when the borrowing of money through the issuance of Finance Bills offers advantages to drawers may be cited.

In the average year there is some time when money is plenty and interest rates low, and if the dividend rate of the banker is to be maintained, he must employ his idle funds, and he frequently does, by the purchase of some high grade security.

While his primary intention was based upon a temporary investment in this manner until money could again be employed at remunerative rates in the ordinary channels of trade, some unforeseen circumstances might arise, resulting in a serious depreciation in the price of the securities at the very time when the money invested in the securities, is needed for the accommodation of the bank's clientele at high interest.

One of two alternatives presents itself: (1) either sell the securities at the depreciated price and sustain the loss on the investment; or (2) retain the securities in the hope of a subsequent advance to the original price, and continue to draw the low interest which they earn, and thus curtail loanable funds to the amount represented by the investment.

These propositions would not be cherished by the banker, and it is at this juncture that the Finance Bill once more comes to his relief.

The securities purchased for investment can be hypothecated as collateral for Finance Bills issued, and the cash amount of the investment returned by the sale of London checks issued against proceeds obtained by discount of his Finance Bills, as previously explained, the loan costing him

approximately three and one-half per cent. per annum, as shown by **Example I**, providing the same terms are applicable to the transaction. If the securities are yielding, let us say, three per cent. per annum, this interest may be applied to lessen the cost of the loan, making the net cost of loan about one-half per cent. per annum.

Subsequent Renewals of Finance Bills.

By subsequent renewals of the issue of the Finance Bill, the securities can be carried in this manner until the value of same has recovered by appreciation in price, and such holding would be advisable, provided: the securities are "gilt-edge," and there is every reason to believe that the shrinkage in value is only temporary.

Money loaned on the New York Stock Exchange against stocks and bonds is often obtained by the loaners through the issuance of Finance Bills.

Outright Purchase of Securities.

Bankers sometimes purchase outright entire new issues of securities from corporations with proceeds obtained by the issue of Finance Bills, sell the securities to investors during the currency of the Finance Bills, and apply the proceeds realized through the sale of the securities to the payment of the Bills at maturity.

Simplicity of Negotiating Foreign Loans.

The doors of the money markets of England, Germany and France are constantly open to the American financiers, and by the aid of the cable loans can be negotiated at these centers with the same dispatch and simplicity as if the accommodation were extended by their next door neighbor.

Two - Fold Benefits to Drawees.

Of inestimable value to the American banker (as shown in the present Chapter) are the facilities accorded through the issuance of Finance Bills, and to the international brothers extending the credit Finance Bills have a two-fold gain in the payment annually of enormous sums in commissions into their coffers and the affording of a safe outlet for their loanable funds at current rate of interest in their respective countries.

The international objective view of the desirability of the Finance Bill may be fittingly expressed by the following opinion of a prominent London banker: "We have become so accustomed to discounting your [American] Finance Bills that we could not, now, manage to get along without them."

CHAPTER VII.

RELATIVE RISK IN PURCHASE OF BILLS.

LONG training serves as the best guide for the profitable purchase of foreign bills of exchange; and to the younger members of the profession, the following general suggestions are in a broad sense outlined on the relative risk in the purchase of bills, with notice that many factors, conditions and contingencies may increase or decrease such risk.

Bills of Exchange that May be Purchased Safely:

I. Bills accompanied by documents covering staple, non-perishable merchandise that can be readily resold in the market where consigned, in the event of forced sale, by reason of non-acceptance or non-payment by the drawees of the appertaining bill and the inability of drawers to reimburse the purchaser of the bill upon demand for the amount originally paid them, plus expenses incurred.

The proceeds realized upon merchandise disposed of under forced sale would be applied on account of the amount of reimbursement demanded of drawers, and provided the merchandise was of the nature just referred to, would almost liquidate the purchaser's claim against the drawers, and the small balance, still due the purchaser may be recovered with little difficulty from the drawers; if, however, they have failed in the meantime, then the purchaser would have a creditor's claim for such balance against the insolvent drawers.

The possibility of such a loss is very remote in view of the fact that the majority of drawers to bills of exchange (exporters) have all refused bills immediately referred to their own agents abroad for protection.

Staple and non-perishable merchandise includes flour and other manufactured cereals such as corn meal, oat meal, hominy, etc.; farming implements, canned meats, fresh meats and other provisions, when the fresh meats and provisions

are shipped in refrigerator cars and vessels of modern type, and warehoused in cold-storage plants upon arrival at destination, if not immediately taken up by drawees;

II. Bankers' Checks upon their foreign correspondents may also be purchased safely to the extent commensurate with the financial strength of the drawers, and endorsers, if any;

III. Bankers' sixty and ninety days' sight drafts drawn upon their European correspondents may be safely purchased for an amount to be determined by the financial responsibility of the drawers and endorsers, if any.

**Bills of Exchange Bought Only from Drawers (or Exporters) of the Highest Commercial Rating,
Involving More or Less Risk:**

I. Bills accompanied by documents representing shipments of perishable merchandise, such as butter, cheese, fresh fruits, etc., that are liable to deterioration in quality, or to absolute loss, during transit, rendering the merchandise practically unsalable abroad;

II. Bills with documents showing collateral security to live cattle, horses or other live animals, necessitating the expense of help and feed during transit for the maintenance of life, as a refusal of such annexed bill would depreciate the value of the security, day by day, to the extent of such expense incurred;

III. Clean bills (bills without documents attached), drawn by merchants or corporations upon European merchants and corporations.

The liability of drawers and drawees, or acceptors of bills of exchange, to the purchaser thereof, is the **fundamental security** of all exchange, irrespective of any collateral security evidenced by relative documents.

**Risk of Loss Reduced to a Minimum by the Purchase
of Documentary Foreign Bills of Exchange,
Documents on Payment.**

In addition to the liability of drawers and endorsers, if any, purchasers of documentary bills are secured by the financial responsibility of the acceptors **on and after acceptance** until actual payment of the bills.

The liability of drawers continues after the acceptance of bills, and remains in force during the whole life of the bills, and ceases only upon payment.

The primary conditions of the desirability of the purchase of any bill of exchange depend upon the moral and financial standing of the parties thereto, and the liabilities just stated of the parties should be quite ample in the majority of cases. Further, these bills possess another element of protection against a possible loss in this, that they are supplemented by documents covering salable merchandise with title continuing in the purchaser of the bills until payment at maturity, or retirement prior to maturity, of the respective bills of exchange.

**Security Against Loss in Documentary Bills of Exchange
Deliverable to Drawees on their Acceptance;
and in Clean Bills of Exchange.**

The protection given the purchaser of clean bills is identical with that of documentary bills of exchange with documents deliverable on payment so far as **the liability of the drawers and acceptors is concerned**; such relative documents, when surrendered **on acceptance** of the drawees to documentary acceptance bills thereafter cease as supplementary protection to the purchaser. Clean bills never possess documentary collateral.

The drawers and drawees to clean bills should have **the highest standing and credit** as the true basis for their purchase, and their negotiation is tantamount to making an **unsecured**

loan to the drawers of clean bills for the time specified therein, with the further liability of the drawees after acceptance—such acceptance being practically an endorsement.

It is always advisable to exercise the same care and precaution in purchasing documentary bills of exchange with documents on acceptance as in the purchase of **clean bills**, even though the financial responsibility of the drawers of documentary acceptance bills is further reënforced by the possession and control in the purchaser of the merchandise evidenced by the attached documents pending the acceptance of the bill by the drawees; invariably, such drawees are bankers or merchants of excellent standing, thus assuring practically, payment of the bills.

Checks Issued by Banks or Bankers Upon Their Foreign Correspondents.

The purchaser of such checks must be entirely guided by the capital, surplus, and general financial standing of the banker or bank of issue, as such bills of exchange have absolutely no other security unless there are other endorsements.

Checks Upon Banks, Bankers, or Merchants Issued by Individuals or Corporations.

Checks offered for sale by unknown individuals without a responsible endorser should not as a matter of course be purchased. Checks from regular clients in good standing and in possession of means equivalent to the amount involved present little risk through their negotiation.

Bankers' Long Time Drafts Issued Upon Their Foreign Correspondents and Usually Drawn at Sixty or Ninety Days' Sight.

These bills should be classified with **clean bills**, and purchasers should be guided by the same precautionary measures; they are divided into **two classes** commonly termed **single** and **double named bills**.

The Single Named Bill

Applies to a bill where the drawers and drawees, or acceptors, are of one and the same responsibility; to illustrate: a bill issued by John Smith of New York City upon his house, John Smith of London, would be a single named bill. Frequently, however, the same firm may be conducted under different names in the different cities, and, therefore, it is of paramount importance that the person intrusted with the responsibility of purchasing bills of this nature familiarize and thoroughly post himself on the financial relationship, if any, of drawers to drawees.

The Doubled Named Bill

Designates drawers and drawees, or acceptors, in no way connected with each other in financial responsibility, and are two distinct and independent concerns; in other respects single and double named bills are the same.

The single named bills have only **one name** for security, and any financial embarrassment of the drawers would involve the solvency of drawees, so these bills do not command as high a price as double named bills with their **two names** for underlying protection of payment: that of the drawers and drawees as just explained.

A custom, frequently resorted to, is to convert a single named bill into a double named bill, and that change is accomplished by obtaining the endorsement of some bank or banker of high standing on a single named bill. The bank or banker supplying the endorsement usually receives as compensation the amount of the difference in price between the single and double named bill, varying from one-eighth to one-half cent per pound Sterling according to the risk involved.

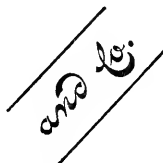
Foreign Banking Laws and Regulations Pertaining to the Endorsements of Bills of Exchange, Etc.

Contrary to the laws of this country, **stamped endorsements** of corporations are not recognized by foreign bankers unless supplemented by the **written signature** of an officer authorized to sign in behalf of the corporation. Endorsements by firms or individuals must be made in writing.

All bills of exchange, payable in Great Britain, must be endorsed **without** the addition of any **prefix**, the reading to the order of the payee to the contrary notwithstanding. For example: a draft made payable to the order of **Mr.** John Smith or **Mrs.** Mary Jones must be endorsed John Smith or Mary Jones, without the Mr. or Mrs., otherwise, payment of the draft can only be obtained on the guaranty of the endorsement by the banker presenting it.

Payees of bills of exchange, drawn upon Great Britain and some of the other European countries, are not required to establish their identity to obtain encashment, and such bills are practically payable to bearer. The laws of these countries relative to punishment covering forgery are so rigid that few attempts have been made to obtain payment of drafts with forged endorsements.

Checks drawn upon Great Britain, when written diagonally across the face in this manner:



will be paid only by the drawees when presented by some bank or banker, and is tantamount, practically, to the identification of the payees.

The date of issue of checks, payable in France, must be written in **letters** and not in **figures** in order to be exempt from the French banking laws relative to bill stamp duty, being one-half mille on the face amount of all bills of exchange other than checks.

CHAPTER VIII.

CABLE TRANSFERS.

CABLE Transfers designate the transmission and payment of money in a foreign country when effected by telegraph; and ordinarily command from one-sixteenth to one-eighth per cent. above the price for bankers' demand drafts, and this difference in price represents the interest.

Illustration: a demand draft sold by a Chicago bank on May 1, would not be presented to the drawee for payment until about May 11, whereas a Cable Transfer sold on May 1 would be paid in London on the same or following day. To offset the ten days' interest accruing to the credit of the Chicago bank during the transit of the draft from Chicago to London on the funds deposited with its London correspondents, the premium of one-eighth per cent. is exacted for Cable Transfers.

Many factors govern the price of Cable Transfers, and at times a premium of about one-quarter per cent. is paid for them; such factors may be:

I. Flurries on the New York Stock Exchange with the incidental abnormal high rates for money frequently induce New York bankers to sell their checks on London for amounts largely in excess of their cash credit balances in the hands of their London bankers, and enables them to relieve the stringency of the money market and at the same time obtain a high rate of interest by loaning the money realized in selling their London checks.

The manner of covering these checks prior to their presentation for payment in London is and can be effected only through the purchase of Cable Transfers, and these operations when indulged in extensively naturally create a brisk market demand for Cable Transfers and fancy prices in many instances have to be paid.

II. Exceptionally high rates for London checks, caused by an unexpected heavy inquiry and a scant supply of commercial bills of exchange, might tempt the aggressive banker to avail himself of the high price by selling his checks on London **short**, basing his calculations on a decline in the price of exchange during the transit of his checks to a point where he can buy Cable Transfers in reimbursement for approximately the same rate he sold his checks, and in that event, he would have had the free use of the proceeds of his sale of checks in the interim for loaning purposes.

Unforeseen circumstances often offset the calculations of the financier, and instead of the anticipated decline, the market has remained stationary, or, in fact, had an advance, and in the face of these conditions, the many **short** sales of checks must still be covered by Cable Transfers at about any price the seller may dictate.

III. The fortnightly settlement days on the London Stock Exchange occurring about the middle and end of each month, influence also the price for Cable Transfers; and New York banking-firms, engaged in transactions in the London market, frequently are called upon, especially in a wide and fluctuating market, to protect their operations by the cash payment, on these days, of very large sums of money that are transferred by telegraph and result in a heavy demand for Cable Transfers.

IV. There are many bankers not averse to having their foreign accounts show a debit balance at various times throughout the half-yearly account periods, and, who, through a sentiment of pride and an implied request on the part of their European friends, always close their accounts on June 30 and December 31 with a liberal cash credit balance created in most cases at the last moment by the purchase of Cable Transfers.

The demand for Cable Transfers through this source is sufficiently large to induce some bankers to establish large

credit balances with their London friends during the months of June and December, thereby placing themselves in a position to sell Cable Transfers on June 29 and December 30 at the advanced prices then usually obtained.

Telegraphic Cipher Code.

The payment of money and the transfer of title to valuables by cablegram is accomplished by the aid of the telegraphic cipher code.

Cable expenses covering transfers for amounts of £5000 and over must be paid by the banker selling the transfer, and it is in his interest to have this code as complete as possible. Telegraphic companies charge a fixed tariff per word for transmitting cable messages, ranging in cost from thirty-one cents, Chicago to London; to four and 2/100 dollars, Chicago to Caracas, Venezuela.

Telegraphic cipher codes are therefore complicated affairs, and should be so compiled as to permit of additions from time to time to meet fresh requirements. The code of the economical banker is never complete and is in a constant state of augmentation.

These codes should be so arranged, that, by the transmission of a single word, the recipient would be instructed to effect, for example, the following order:

"Notify and pay to the Union Discount Company of London, Limited, London, for account of the New York Agency of the Bank of Montreal, the sum of ten thousand pounds to the debit of our account."

In addition to its employment for the payment of money, the code is used for many other purposes by the banker as a money-saver in the dispatch of cable messages; thus:

Its cipher is used for obtaining reports on foreign houses, quoting exchanges between foreign countries, ordering gold shipments, stopping payments on drafts, advising drafts, advising the non-acceptance or non-payment of foreign bills of exchange remitted for collection and credit, and for innumerable other purposes.

From the very nature of its diversified requirements for individual use, it will be readily understood that the **perfect code** must be of **private construction**, and that a published code for general use would be of little value to the banker. Coupled with the private code, all leading bankers have for immediate use the standard codes, such as Lieber's Code, the A-B-C Code, and others, and sometimes use is made of these codes in conjunction with their own code, or in communicating by telegraph with inactive correspondents, who have not been furnished with the private code, and have in their libraries the standard codes.

Of **vital importance** are the **test-words** that constitute the **first or last word** of a message according to agreement. The **test-word** is incorporated in the message for the purpose of establishing the **genuineness** of the message and is always used as a safeguard against fraud or pecuniary loss in the transmission of messages involving the payment of money or transfer of titles to valuables.

It is therefore of the **greatest importance** that these test-words be trusted only to the custody of persons of character and carefully guarded lest the omission of this precaution might have very serious consequences for no recourse could be had against the recipient of a cable message covering a payment of money and possessing as a verification of its genuineness the employment of a **forged test-word**.

Another precaution against loss exercised by the banker is to hand every cable message to a trusted employé for translation to see that it has been correctly compiled before sending it.

Receipts given to purchasers of Cable Transfers should bear on their face the conditions found in the upper left-hand corner of the specimen receipt-form, submitted in the words following:

Specimen Receipt.

It is fully understood and agreed that no liability shall attach to us, nor to our correspondents, for loss or damage in consequence of any delay or mistake in transmitting this message, or for any other cause beyond our control.

CHICAGO, Illinois, October 1, 1903.

Messrs. JOHN SMITH & CO., Chicago,

TO ATLAS NATIONAL BANK, DR.,

Cable Transfer to HENRY BROWN & CO., London,

£10,000 at \$4.88, - - - - - \$48,800

Payment made by THE LONDON CITY AND

MIDLAND BANK, Limited, London, Cable, _____
\$48,800

Extreme care should be taken to guard against the possibility of neglecting to effect a Cable Transfer according to agreement for a failure to make payment at a specified time would not only cast a serious reflection upon the credit of the seller, but might be the cause of litigation instituted by the purchaser for the recovery of damages.

CHAPTER IX.

FOREIGN BILLS OF EXCHANGE BOUGHT AND SOLD FOR "FUTURE DELIVERY"— WHEN A CONSERVATIVE AND NOT A SPECULATIVE PRACTICE.

AS a matter of course, wilful speculation in the purchase and sale of foreign exchange in future options should be strictly avoided in The Foreign Department; and should this suggestion not be adhered to, the profits of The Foreign Department, like other gains subject to the vagaries and uncertainties of speculation, are bound to be erratic, and the **very large profits** of one year, as a result of fortunate speculations, are bound to be counteracted in a subsequent year, by **very small profits**, covered by a period of unfortunate speculations.

One feature pertaining to speculation is invariably the same—the ultimate outcome is always disappointing, and were the matter to rest there, it would not, perhaps, be so bad, but it involves contingencies of a very unpleasant nature. To explain: the **uniformity** of annual profits of The Foreign Department can be obtained only in one manner, viz: by a **strict compliance with a fixed basis of operation upon lines governing the legitimate purchase and sale of exchange**. Even then, the uniformity in the percentage of profits is beyond the power of the manager by reason of the many conditions and circumstances of a local and foreign nature, constantly at work, directly and indirectly, affecting the earning capacity of the department over which he has absolutely no control, **the satisfactory explanation thereof** should exonerate him from criticisms of mismanagement and inefficiency, **provided** he has not indulged in **wilful speculation**.

Reasons to show that the business devoted to the legitimate purchases and sales of foreign exchange for "future delivery,"

commonly termed "futures," is conservative and not speculative:

Every Foreign Department, in order to conduct an active and continuous business, must have as its foundation, a working London book balance, and the amount thereof is dependent upon the volume of business transacted.

Assume that such working balance, the money there employed by The Foreign Department, is the sum of \$500,000, approximately £100,000. This working balance was not created by the purchase of demand bills and bills of exchange discountable upon receipt, by the London banker, exclusively, but includes also thirty and sixty days' sight bills, documents against payment, to be paid on, or prior to maturity, under rebate, at the retirement rate of discount, as explained in Chapter XVII, Class B bills, at the pleasure of the drawees (or acceptors). One-half of the book balance, or \$250,000, £50,000, is represented by bills of this type, purchased at an average cost for demand bills of \$4.86 per pound Sterling, as explained in "The English Account."

The banker can not secure his profit by selling his demand drafts on London for the equivalent amount of these bills until actual payment by drawees without creating a costly cash overdraft and it is impossible to determine on what dates these payments for drafts will be made, with the result that the banker resorts to one of three options, to-wit:

I. Converts the bills into cash by issuing his sixty days' sight bills for discount against them as explained in Chapter XVII, "The English Account;"

II. Or awaits the advices from his London correspondents covering the dates of payments of the bills;

III. Or sells his demand drafts for future delivery to the amount of the equivalent of the bills.

Open Market London Discount Rate.

Option I is not always desirable or advantageous, depending upon the private or open market London discount rate that may have advanced since purchase of the thirty and sixty days' documentary payment bills, and in that event would increase the cost of the demand exchange by conversion, under discount;

Compulsory Holding of Exchange.

Option II involves the element of risk, or speculation, the very feature to avoid, namely: the compulsory holding of exchange, bought on a basis of an average cost of \$4.86 per pound Sterling, until sold at various times within sixty days after dates of purchase, according to dates of payment of the bills by drawees, and at future uncertain prices for demand drafts that may be considerably lower, than the average purchase price, at the time of deliveries, owing to a decline in the market with resulting loss;

Future Deliveries in Installments.

Option III must therefore be availed of by seizing the first opportunity to sell the aggregate amount of, say £50,000, \$250,000, demand drafts for future deliveries in installments, say, of £10,000 deliverable fifteen days after average date of purchase, £20,000 deliverable thirty days after average date of purchase, and £20,000 deliverable forty-five to sixty days after average date of purchase at a price above \$4.86, the cost price, to insure a profit on the exchange, in addition to the interest accruing on the bills from date of purchase to date of payment by drawees, at the rate of interest on the original purchases of the bills made.

A pertinent inquiry—Why is it that the demand drafts were sold for future deliveries, covering a range of time from fifteen to sixty days, subsequent to dates of purchase, and not for one delivery sixty days after purchase?

The reason is the thirty and sixty days' sight bills are paid by drawees, under discount, from day to day, and a reasonable estimate would be that a sufficient amount had been paid out of the entire amount of \$250,000, £50,000, to permit drawing a demand draft for £10,000 fifteen days after purchase, £20,000 thirty days after purchase, and £20,000 from forty-five to sixty days after purchase.

Another question in point—What creates this call by bankers for demand drafts on London for future deliveries, and makes it possible to obtain the same or higher prices, for these deliveries, than the bankers are willing to pay for demand London drafts for prompt delivery?

For the very reason that the bankers desire to secure themselves from a possible advance in the price for demand drafts on London required for future dates—as set forth in Chapter VI on Finance Bills.

These conditions do not always exist, and at certain periods of the year, protection afforded by the sale of "futures" can only be obtained by accepting a price lower than that for prompt delivery, and by referring to Chapter XVII, it will be found that during these periods the thirty and sixty days' sight bills should be purchased on a basis accordingly.

Another source of supply of foreign exchange, enabling legitimate sales for future delivery and compelling such sales to be characterized as conservative banking, is derived from

Exporters, Who are Heavy Sellers of "Futures."

European merchants are constantly asking American exporters for quotations on provisions, seed, etc., for future delivery. For example: an exporter may be requested to offer prices in May for seeds to be shipped during the month of August, or an exporter of lard may have inquiries in October for quotations on lard to be exported during the following January.

It is obvious that the sole manner to determine the prices for these commodities to be offered **to secure a net fixed profit** will be to eliminate the element of speculation with respect to the future course of the foreign exchange market. Exporters accomplish this by obtaining from their bankers bids for their foreign bills of exchange to an amount equal to the value of the commodities offered for sale to their European friends, for future delivery, **subject to their acceptance on the following day.**

Should the European merchant accept the exporter's offer, the exporter immediately accepts the bids for the foreign bills of exchange, for future delivery, received the preceding day from the banker, and on those bids the exporter's quotations to the European merchant were based. The transaction and the profit to the exporter is closed, pending only the shipment of the goods and the delivery of the foreign bills of exchange in due course of time.

Bankers' Basis for Quotations of Foreign Exchange "Futures."

Suppose the banker had purchased of the exchange. It is not reasonable to infer that he would be willing to assume a risk that the exporter would not undertake. On what basis, then, did the banker make quotations for his foreign exchange "futures."

His quotations must have been based on one of the following factors:

I. Either he had "Finance Bills" outstanding maturing abroad in August or January, and desired to fix the exact cost of the rate of interest on the underlying loans, by securing cover, by the purchase of these "futures" deliverable during these months, as explained in Chapter IX; or

II. He based his bids to the exporter, upon bids by New York bankers, through brokers, for exchange deliverable to them during the months of August or January, which he would have accepted in event of sale of "futures" by the exporters.

The practice of the present day of making purchases and sales of foreign bills of exchange for future deliveries, based upon legitimate lines of operation, is conservative, therefore, and not speculative.

CHAPTER X.

FOREIGN BILLS OF EXCHANGE PURCHASED FOR INVESTMENT.

THE financier is ever on the alert to employ his loanable funds in the channel that offers the highest rate of interest without impairment of security or availability in case of an emergency. No form of investment embodies these features so admirably at certain times as an investment in the purchase of foreign bills of exchange.

The monetary conditions throughout the prominent countries of the world are rarely identical, so that, while the interest rate for money in this country would be cheap, the rates obtaining in England, Germany, or France, might be considerably higher.

High interest rates for money are due to one of two conditions: such rates are the result of distrust and the unwillingness of the banker to make loans for fear of financial and commercial disturbances; or the result of commercial prosperity, accompanied by a brisk demand for money for legitimate industrial development.

Before making purchase of foreign bills of exchange for investment, the banker will satisfy himself that the cause for the high rate of interest in that country where the foreign bills are payable and where he contemplates investing his funds, is due to the former or the latter reason; and as he would hesitate to make loans in his own country under the former conditions, he certainly would not seek a foreign market under similar circumstances.

Assume that the high rates of interest result from a period of prosperity, and that participation therein can be made

with absolute safety in such foreign country, and that the bills about to be purchased are drawn upon Germany.

Exports are always stimulated during periods of prosperity, as the demand for imported merchandise is increased by the demand occasioned by the ability to pay for same by the consumers in good times. No trouble will arise in purchasing bills drawn by merchants against exports as an abundance of these bills will be tendered for sale.

Assume further that the Imperial German Reichsbank rate of discount is five and one-half per cent. per annum, and the open market discount rate is four and one-half per cent. and that money in the local American market is a drug at three per cent., an actual condition known to bankers. A very large percentage of documentary bills of exchange on Germany, drawn upon merchants of first-class financial standing, and upon prime bankers at sixty and ninety days' sight, with instructions from the drawers to surrender appertaining shipping documents against the acceptance of drawees of the respective bills, are subject to discount at the private or open market discount rate; and, instead of remitting these bills to his German correspondents for the credit of his account upon receipt, under discount, as explained in Chapter XX relating to the "German Account," the banker will pursue the following procedure when the bills are purchased for investment:

On the day of purchase, the **firsts** of bills of exchange are **not endorsed** by the purchasing banker to the order of the banker to whom remitted, as in the case of bills sent for credit, under discount, but on the face of the bills is written in full view the following phrase: **For acceptance only**, and the banker instructs his correspondents to whom forwarded, to obtain acceptance and to hold the accepted **firsts** subject to the call of the **endorsed** appertaining **seconds**; then by the following mail are forwarded the duplicate documents,

which have been detached from the respective seconds of bills of exchange, to the same correspondents with instructions to deliver them to the drawees of respective drafts, provided the firsts have, in the meantime, been duly accepted.

Then the seconds of bills of exchange, without any documents, alone remain in the possession of the purchasing banker, and on the face of such seconds is written legibly, **Accepted first, held by ———**, inserting the name of the banker to whom the firsts were sent for procurement of acceptance.

The investment of funds has now been completed, and the seconds are placed in the purchasing banker's portfolio with interest to his credit accruing thereon from day to day at the rate of purchase, and in the case at hand was four and one-half per cent. per annum being the private discount rate in Germany on the date of purchase of the bills. If these seconds of bills of exchange are held by the purchasing banker to within fifteen days of the date of maturity, and there has been no fluctuation in the price for **checks** on Germany in the interim, then his investment has netted four and one-half per cent. per annum for the period of time represented by the tenor of these bills.

But, if, on the other hand, the rate of exchange for **checks** on Germany has advanced, say, one-quarter per cent. during the time the seconds were held, and the bills were ninety days' sight bills, then his investment would have netted an additional one per cent., or, in all, five and one-half per cent. per annum for the ninety days, being a gain of one-quarter per cent. for ninety days, or one-quarter of a year, and for one year would be four times as great, to-wit: one per cent.

Of course, if the rate for checks on Germany at the maturity of his ninety-day sight bills should have declined

one-quarter per cent. then his investment would have netted only three and one-half per cent. per annum.

Query: Why does the rate for checks enter into the transaction at all? The manner to secure return of the money invested in long time foreign bills of exchange is by conversion of the long time bills into checks or demand drafts. This conversion is accomplished in one of two ways, namely: either, the long time bills are endorsed by the purchasing banker and forwarded for credit to his banker for discount, prior to maturity, or the bills are retained in his possession until within fifteen days of maturity and then endorsed and forwarded to his banker for his credit; and in either case, the purchasing banker would then be enabled to reimburse himself for the amount of his original investment in long bills by issuing **his checks** upon his German banker against the proceeds of the long bills remitted to his correspondent for his credit, and selling his checks, thus issued, in the open market.

The banker never loses sight of the fact that investments through the purchase of long time bills of exchange, although issued at sixty or ninety days' sight, are practically demand loans and available at a moment's notice by conversion into checks, as just described, and a feature especially commending them for the temporary investment of loanable funds.

A loss to the investor by virtue of a decline in the price of checks is rarely occasioned, owing to the fact that in almost all cases, the purchase of the long bills is made at a time when the rates of exchange are low, in consequence of the abundance of bills offered by exporters, and explained in the early part of the present Chapter, and as the life of the bills is sixty or ninety days, it is fair to assume, that, at **some time**, during this period, either the price for checks will have advanced, or the rate of discount in the open market

will have declined, so as to permit the investor to realize upon his long bills, by conversion into checks, at an additional profit, instead of a loss.

Should the investor feel assured that the ease of the local money market is likely to continue indefinitely, and is satisfied to make a sixty or ninety-day time loan, at the rate of interest underlying the purchase of long time bills of exchange for checks or demand drafts which may exist at the time when his long bills will fall due, by selling for "future delivery" his own checks for an amount equal to his holdings of long bills, at the same or higher price, than was ruling for checks at the time his investment in long bills was consummated, he thereby eliminates the one speculative or uncertain factor that might operate to his disadvantage.

Investments in foreign bills of exchange are by no means confined to the purchase of **documentary acceptance bills**, such as just described, but are accomplished, also, by the purchase of sixty or ninety days' sight drafts drawn by bankers in this Country upon their European correspondents. These drafts are ordinarily issued in pounds Sterling upon London bankers. The *modus operandi* is identical with that relative to documentary acceptance bills in Germany, with this difference that there are no documents attached to bankers' bills.

Capitalists and bankers frequently avail themselves of the purchase of bankers' long Sterling bills for the temporary employment of their surplus funds, and investments of this nature are more attractive than the purchase of bonds at a high price in a cheap money market, or the low rate of interest on bankers' certificates of deposit.

In concluding this subject, observe that it is not necessary for the investor to remit the seconds of bills of exchange, previously referred to, to the banker to whom the appertaining firsts were sent, and notice that the latter were forwarded

merely for acceptance and retention, subject to the call of the endorsed seconds, consequently, the seconds can be endorsed and remitted for collection and credit to any banker who will obtain possession of the firsts by the presentation of the endorsed seconds, the two parts, viz: accepted firsts and endorsed seconds constituting the completed bills.

Great care should of course be exercised in keeping an accurate memorandum of the dates of maturity abroad of all bills of exchange held in portfolio for investment, so that by reference thereto it can be readily seen what bills have to be extracted for remittance.

All bills of exchange must be presented to the drawees (or acceptors) for payment on date of maturity and ample time should be allowed for transit; and to guard against a possible delay in receipt of the mail with endorsed **seconds of exchange** forwarded to a banker for collection and credit, it is advisable to allow five days in excess of the ordinary time required to reach a given destination, to enable the banker to whom seconds have been sent to procure the appertaining **accepted firsts** and demand payment of the drawees by presentation of the completed bills on date of maturity.

CHAPTER XI.

MODERN METHOD TO COLLECT BILLS UPON COUNTRIES WHERE AMERICAN BANKERS HAVE NO ACTIVE ACCOUNTS.

WHEN the foreign agents have acceded to the request of the American banker to negotiate drafts under his Travelers' Letters of Credit, as set forth in Chapter XII, that tie will lead to the transaction of other banking business, such as the collection of drafts, and while such collection constitutes an elementary branch of banking, freely entrusted to foreign agents, other business will follow from such ties that place the American banker in the central position of having international agents.

The interest on the amount of the face of the draft for the length of time consumed in transit is the essential feature to consider in the collection of drafts, but the factor of interest does not enter, so far as the banker is concerned, into all transactions, and in consequence, drafts, or bills of exchange, are divided into two classes, to-wit:

CLASS A:

Bills Purchased Outright from Drawers, or from Persons with Title.

The interest feature concerns the purchasing banker of bills bought outright in this that his money paid for the bills is outstanding until receipt of returns.

To accurately determine the amount of interest to be added to the face amount of bills bought, or to be deducted at the time of purchase, in the former case to be paid by drawee and in the latter by drawer, or rightful owner, the banker should know the approximate amount of time consumed in transit to and from all foreign nations, and should also refer to his schedule of steamer sailings to avoid loss of time in failing to make proper connections.

EXAMPLE:*

Suppose a sight draft for \$500 on Sidney, New South Wales, is offered for sale? What price shall be paid for it, less loss of exchange, collection charges and loss of interest, and at the request of the seller to be paid by himself; or in other words, all those expenses to be deducted, to determine the purchase price to the banker:

The seller of the bill would receive from his bank	
in payment, - - - -	\$500
Less: Interest for 90 days, approximate time in transit to and from Sidney to Chicago,	
@ 6% on \$500, - - - -	\$7.50
Commission, bill-stamps, and exchange charged by Sidney agents for collecting and remitting returns, 1%, - -	5.
Forwarding banker's commission, $\frac{1}{2}\%$, - - -	2.50
or the net sum of - - - -	<u>\$485</u>

In turn, the banker will receive his returns for draft by remitting same to his correspondent at Sidney, and whose name is found by referring to his list of correspondents under Letters of Credit, to be, say, The Union Bank of Australia, Limited, requesting said Bank to collect the draft and remit proceeds to him by check on New York City.

* The collection charges are approximate.

In due course, he would receive its New York draft	
for - - - - -	\$500
Less, approximately, the charges as above,	5
or, the net amount of - - - - -	\$495

The seller was paid the sum of \$485, and the profit to the bank on the bill would be \$10, being \$7.50 for interest and \$2.50 for commission.

Had the seller of the above bill demanded the face net amount, that is, \$500 in payment, the bill would have been treated in exactly the same manner as stated, with the exception that the banker would have added to the face amount of \$500:

These charges would appear on draft itself,	
Ninety days' interest at 6% on \$500,	\$7.50
Forwarding banker's commission, 1/2% on \$500,	2.50

and the collecting banker would have requested his Sidney agent to collect exchange and its charges from the drawees to enable it to send a draft on New York City for \$510, so that the profit to the collecting bank would have been just the same as in the other case, viz: \$10.

To enable the Sidney agent to collect its charges from the drawees without difficulty, the banker will stamp the bill with the following phrase:

Payable at the rate of exchange for bankers' checks on New York plus commission, stamps and other charges.

The frequency of drafts of this nature collected to net the drawers the face amount of their drafts necessitates the following specimen form of letter to address to the foreign correspondents effecting the collection:

Specimen Collection Letter:

UNION NATIONAL BANK,

CHICAGO, Illinois, _____, 190 .

Gentlemen:

Inclosed please to find for the favor of collection and returns by cheque on _____, No. _____, for _____ on _____ (protest waived in case of dishonor), documents to be surrendered on payment.

We have added _____ dollars to the face of the bill to cover our commission and interest, and we request that you collect all remaining charges from the drawees to permit you to remit us _____ dollars net, in reimbursement, as per tenor of draft.

Duplicate bill and documents will be forwarded to you by next mail.

Yours very truly,

Bills free from any loss of interest to the banker include:

CLASS B:

**Bills for Collection to be Accounted for to Drawers
or Lawful Holders Upon Receipt of Returns.**

These bills are **not** paid for by the banker until the proceeds have been received from his foreign correspondents to whom collection was entrusted, and the **interest feature** does **not** enter into the transaction so far as the banker is concerned.

Should the seller of the bill—of like amount and on the same drawee as the bill previously treated—desire to be reimbursed for the loss of interest sustained by him, and requests collection to be effected to realize for him the face net amount of the bill of - - - - \$500.

Plus loss of interest to seller, - - - 7.50

Commission, $\frac{1}{2}\%$ to forwarding bank, - 2.50

Charges in Sidney for collecting, 1% , - 5.

\$515.

to effect collection as in the previous case; and in due course, draft on New York City from his Sidney agent would be received for - - - - - \$515.

Less its charges as above, - - - 5.

or, New York draft for, - - - \$510.

Deducting charge of forwarding bank, - 2.50

\$507.50

being the face amount of the draft, - - - 500.

Plus interest, - - - - - 7.50

\$507.50

In the event, however, that all charges, including interest, were to be assumed and paid by drawer as agreed with drawee, then the collection of the draft would have netted the drawer, as follows:

Draft on Sidney, New South Wales, -	\$500.
Less charges by Sidney agent, 1%, - -	5.
	<hr/> \$495.

Amount remitted to forwarding banker by

New York draft, - - - -	\$495.
Less his commission of $\frac{1}{2}\%$, - -	2.50
leaving net proceeds to be paid to drawer	
upon receipt of returns from Sidney, -	<hr/> \$492.50

and the draft would have been remitted by the banker to his Sidney agent without any mention with regard to charges, but merely for collection and remittance of proceeds by check on New York City.

Had the draft of \$500 on Sidney been issued for £100 Sterling, as drafts on British colonies frequently are, the various operations would have been identical with the exception, that, instead of asking his Sidney correspondent to remit him proceeds by check on New York City, the American banker would have requested a **check on London** and marked the draft accordingly.

Explanation has preceded of the different ways to collect foreign bills of exchange drawn upon countries where no active accounts are kept, and **collection of all bills irrespective of location of drawees** follows like modes as the underlying principle is inclusive and general.

Should the bill happen to be drawn upon a small city where no Letter of Credit correspondent chanced to be, then the bill should be forwarded to the nearest point having such correspondent.

The old manner pursued by American bankers, where no active accounts existed with foreign countries, was to forward their drafts drawn on such foreign countries to London for collection and credit, whereas today the new way is to collect such drafts direct.

CHAPTER XII.

TRAVELERS' LETTERS OF CREDIT.

THE modern banker's Letter of Credit in its present state is the production by many bankers whose professional duties have qualified them to supply an instrument of credit for the use of the traveler; and although its underlying basis of credit has remained intact from its inception, it is constantly undergoing a process of amendment and alteration, to conform to requirements and needs, not formerly existent.

The issuance of Letters of Credit constitutes one of the most profitable sources of revenue, and, nowadays, no well-equipped foreign department is considered complete unless in a position to furnish such Credits to the traveling public. This feature will now receive full exposition.

The initial step will be for the American bank to request its London bankers to supply it with a List of their Correspondents, appearing as agents under their Traveler's Credits, whom the American bank desires to address for the purpose of obtaining their consent to act for the American bank in a similar capacity. Upon receipt of this List from London, the American bank forwards a circular letter to the banks mentioned thereon, informing them that it has under preparation a Traveler's Credit, and inquires if it would be agreeable to them to place their name upon the American bank's appertaining List of Correspondents, at the same time, inclosing its last statement and referring them to its London bankers for any information regarding the American bank.

These letters, addressed to bankers all over the world, will require from four to six months' time before complete returns can be expected. In consequence, there will be ample time in the interim to have its form of Letters of Credit lithographed and a sufficient number stamped

"Specimen" to enable the American bank to send one "Specimen" with sample signatures of the officers authorized to sign the Credits, to all the correspondents replying in the affirmative, in answer to the circular letters of the American bank.

There are many Credits in use at the present day, but the following specimen is of recent construction, and has been found admirably adapted for its requirements, under actual use:

Specimen Letter of Credit:

THE NATIONAL BANK OF THE REPUBLIC OF CHICAGO.

No. _____ CHICAGO, Illinois, _____, 19—

£ _____ Sterling.

To the MANAGER:

This letter will introduce to you

M _____

in whose favor we have opened a credit of

_____ Sterling,

and whose sight drafts to that extent upon

THE LONDON CITY AND MIDLAND BANK, Limited,
of London, we engage shall meet with due honor, if nego-
tiated within _____ months, from this date.

The amount of each payment you will please endorse on
this letter, and your negotiation of the draft will be considered
a guarantee that the requisite endorsements have been made.
You will please observe that all such drafts be drawn against
the Letter of Credit of The National Bank of the Republic,
No. _____.

This letter must be attached and remitted with the
last draft drawn.

Recommending M _____
to your usual courtesy,

Yours, very truly,

To Messieurs, our Correspondents, and
all other Banks or Bankers to whom
this Credit may be presented.

N. B. The bearer is advised to keep the List of Correspondents separate and apart from the Letter of Credit to prevent both from being lost or stolen together, also to affix **immediately**, his usual signature at place indicated on the inside of the cover of the List of Correspondents as a precaution against forgery in the event of the List of Correspondents or Letter of Credit falling into improper hands. THE NATIONAL BANK OF THE REPUBLIC will not be responsible for the consequences arising from an omission by the bearer to observe these precautions.*

A reproduction of the reverse side of the Credit follows, showing the manner of endorsement for the respective amounts drawn under Letters of Credit:

**Specification
of Payments made to the bearer of this Letter of Credit.**

PAID BY	AMOUNT IN LETTERS	AMOUNT IN FIGURES

When the aggregate endorsements equal the face amount of the Credit, the Credit is exhausted, and retained and attached by the negotiating banker to the last draft in accordance with tenor of Credit.

The signature of the accredited formerly appeared on the face of the Credit for identification, and the List of Correspondents was also attached to the Letter of Credit, making the Credit complete in one document.

This form, while still in use to a limited extent, does not embody the same degree of safety as the modern Credit exhibited, and for reasons specified at the foot of the Credit; this form of Credit is issued in two parts: the relative introduction of the beneficiary is on the front inside cover where appears also the specimen signature of the beneficiary, and such List is issued separate and apart from the Credit proper.

* This Note follows at the foot of "Specimen Letter of Credit."

The next exhibit is a specimen of the front inside cover of the List of Correspondents and is issued in book form for the traveler's guidance; appended also are a few pages taken at random from the List of Correspondents. It will be manifest at a glance from the appertaining **Index** that correspondents are located in every country in the world and that such agents will negotiate drafts under Travelers' Credits:

**Specimen of Front Inside Cover of List of
Correspondents:**

THE NATIONAL BANK OF THE REPUBLIC
OF CHICAGO, U. S. A.

CHICAGO, Illinois, _____, 19—.

To our CORRESPONDENTS as listed herein:

This serves to introduce to you Mr. _____,
the bearer of our Letter of Credit, No. _____, a specimen of
whose signature is at the foot hereof.

(Signature of Bank's Officer.)

(Signature of holder of Credit.)

Specimen Pages from List of Correspondents.

Index.							PAGE.
Great Britain and Ireland,	--	--	--	--	--	--	3
Germany and Austria,	--	--	--	--	--	--	5
France,	--	--	--	--	--	--	8
Spain and Portugal,	--	--	--	--	--	--	12
Holland and Belgium,	--	--	--	--	--	--	13
Italy,	--	--	--	--	--	--	13
Greece,	--	--	--	--	--	--	15
Switzerland,	--	--	--	--	--	--	15
Denmark, Norway and Sweden,	--	--	--	--	--	--	16
Russia and Finland,	--	--	--	--	--	--	17
Turkey in Europe, and Balkan States,	--	--	--	--	--	--	18
Turkey in Asia,	--	--	--	--	--	--	18
Persia,	--	--	--	--	--	--	19
Egypt,	--	--	--	--	--	--	19
Africa, continent,	--	--	--	--	--	--	19
Africa, islands,	--	--	--	--	--	--	21
India, China, Japan, etc.,	--	--	--	--	--	--	22
Australia and Tasmania,	--	--	--	--	--	--	25
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Mexico,	--	--	--	--	--	--	28
Central America,	--	--	--	--	--	--	29
Canada, etc.,	--	--	--	--	--	--	29
United States,	--	--	--	--	--	--	30

Great Britain and Ireland.

Birmingham,	-	}	THE LONDON CITY AND MIDLAND BANK, Limited.
Bradford,	-		
Brighton,	-		
Bristol,	-		
Cardiff,	-		
Cheltenham,	-		
Coventry,	-		

Dublin, - - - THE ROYAL BANK OF IRELAND, Ltd.

Edinburgh, - - - } CLYDESDALE BANK.
Glasgow, - - -

Gloucester, - - - }
Guernsey, - - - }
Hull, - - - } THE LONDON CITY AND MIDLAND
Jersey, - - - } BANK, Limited.
Leeds, - - - }
Liverpool, - - - }

London, - - - } THE LONDON CITY AND MIDLAND
BANK, Limited, and Branches:
Head Office, 5 Threadneedle Street.
BOND STREET BRANCH,
34 Old Bond Street.
TOTTENHAM COURT ROAD BRANCH,
159 and 160
Tottenham Court Road.
LUDGATE HILL BRANCH,
45 and 47 Ludgate Hill.

Nottingham, - - - }
Sheffield, - - - } THE LONDON CITY AND MIDLAND
Southampton, - - - } BANK, Limited.
Swansea, - - - }

Germany and Austria.

Aachen,	-	{ AACHENER DISCONTO GESELLSCHAFT. BERGISCH MARKISCHE BANK.
Altona,	-	DEPOSITENKASSE DER DRESDNER BANK.
Augsberg,	-	LEYHERR & CO.
Baden-Baden,		G. MULLER & SONS.
Badschwalbach,		{ KOCH, LAUTEREN & CO. MARCUS BERLE & CO.
Berlin,	-	{ DRESDNER BANK. DEUTSCHE BANK.
Bonn,	-	WESTDEUTSCHE BANK.
Bremen,	-	{ BREMER BANK, Filiale der DRESDNER. BREMER FILIALE DER DEUTSCHEN BANK. S. LURMAN & SOHN.
Breslau,	-	{ EICHBORN & CO. BRESLAUER WECHSLER BANK.
Brunn,	-	{ ANGLO-AUSTRIAN BANK.
Buda-Pesth,		
Carlsbad,	-	{ CREDIT ANSTALT, BOHEMISCHE. ESCOMPTE BANK. GEBRUDER BENEDIKT. GOTTLIEB LEDERER.
Carlsruhe,	-	G. MULLER & SONS.
Chemnitz,		FILIALE DER DRESDNER BANK.

South America.

Bahia, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Barranquilla, Columbia:

FERGUSSON, NOGUERA & CO.

Berbice, British Guiana:

BRITISH GUIANA BANK.

Bogotá, Columbia:

FERGUSSON, NOGUERA & CO.

Buenos Aires, Argentina:

LONDON AND BRAZILIAN BANK, Limited.

Campinas, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Georgetown, British Guiana:

BRITISH GUIANA BANK.

Pará, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Pernambuco, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Pelotas, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Porto Alegre, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Rio de Janeiro, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Rio Grande do Sul, Brazil:

LONDON AND BRAZILIAN BANK, Limited.

Rosario, Argentina:

LONDON AND BRAZILIAN BANK, Limited.

Persia.

Bushire, - - -

Ispahan, - - -

Meshed, - - -

Resht, - - -

Shiraz, - - -

Tabriz, - - -

Teheran, - - -

Yezd, - - -

} THE IMPERIAL BANK OF PERSIA.

Africa.

Alexandria, Egypt,	{	BANK OF EGYPT.
Cairo, - "		IMPERIAL OTTOMAN BANK.
Port Said, - "		CREDIT LYONNAIS.
		THOS. COOK & SON.

Algiers, Algeria:

CREDIT LYONNAIS.

THOS. COOK & SON.

Aliwal North, Cape Colony:

STANDARD BANK OF SOUTH AFRICA, Limited.

African Islands.

Las Palmas, Gran Canaria:

BLANDY BROS. & CO.

Teneriffe, Canary Islands:

HAMILTON & CO.

Mojanga, Madagascar:

COMPTOIR NATI'L D'ESCOMPTE DE PARIS.

Port Louis, Mauritius:

THE BANK OF MAURITIUS, Limited.

Tamatave, Madagascar:

COMPTOIR NATI'L D'ESCOMPTE DE PARIS.

India, China, Japan, etc.

Amoy, China:

HONG KONG AND SHANGHAI BANKING CORPORATION.

Bangkok, Siam:

HONG KONG AND SHANGHAI BANKING CORPORATION.
CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.

Batavia, Java:

CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.

Bombay, India:

COMPTOIR NATIONAL D'ESCOMPTE DE PARIS.
CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.

Calcutta, India:

CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.
COMPTOIR NATIONAL D'ESCOMPTE DE PARIS.

Colombo, Ceylon.

CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA.

Delhi, India:

DELHI AND LONDON BANK, Limited.

Should two or more persons travel together, Credits may be issued in their joint and several names, so as to enable either beneficiary to draw against the Credit.

All Credits issued must be immediately advised to the London bankers upon whom such Credits are drawn, and at the same time, a specimen signature of the person in whose favor the Credit is issued must be forwarded to the London bankers; such specimen signature is filed for the purpose of determining whether drafts drawn upon them against Credits are genuine, by comparing the signature on the draft with the signature on file received from the American banker.

The subjoined form is in general use, and combines the advice of the Letter of Credit and specimen signature of the holder:

(Name of Bank.)

CHICAGO, Illinois, _____, 19__.

THE LONDON CITY AND MIDLAND BANK, Limited,
London.

To the MANAGER:

Below please find signature of _____
_____, to whom we have issued
Circular Letter of Credit, No. _____, for £ _____
to be in force _____ months.

Respectfully,

(Signature Officer of Bank.)

Signature of

(Holder of Credit.)

These Letters of Credit are used by the holders thereof in this way:

Suppose the holder were at Delhi, India, and had in his possession one of these Credits, and desired some money. He would refer to the List of Correspondents and find that the Correspondent in Delhi was the Delhi and London Bank, Limited. He would go to this Bank and present to it his Credit, together with the List of Correspondents, and request it to pay him, say, the equivalent of ten pounds, Sterling (approximately \$50). The Delhi and London Bank, Limited, would prepare for him a sight draft upon the London City and Midland Bank, Limited, London, for ten pounds, Sterling, payable to their own order, to-wit: Delhi and London Bank, Limited, specifying on the draft that it was "drawn against Letter of Credit, No. _____, issued by the Chicago bank, dated Chicago, Illinois, _____, 19 __," and such sight draft would be handed to him for his signature.

After careful comparison of his signature on the draft, with his signature on the List of Correspondents, the latter being to identify him, the Delhi and London Bank, Limited, would pay him the equivalent of ten pounds Sterling in rupees, the money of India (see Chapter XXVIII, "Monetary Units of the World"), and endorse the amount of ten pounds, Sterling, on his Letter of Credit and return to him his Credit and List of Correspondents, and the transaction is over so far as the holder is concerned.

The Delhi and London Bank, Limited, would reimburse itself for the amount paid him by remitting his draft on London to its London office for collection and credit. The London agent of the American bank, the London City and Midland Bank, Limited, upon presentation of such draft to it for payment, would compare the signature on the draft with the signature on file, and if genuine would pay the draft and charge same to the account of the American bank, and forward such draft to the Chicago bank, which, upon receipt

of same, would reimburse itself in one of the three following ways, dependent upon the terms and conditions agreed upon by the beneficiary at the time of issue of his Letter of Credit.

Terms of Issue.

Having presented all the preliminary work incident to the issuance of Credits, and explained the manner of use, the terms and conditions of their issue by the American bank to persons applying for such Letters of Credit follow:

I. At the current selling rate of exchange for bankers' checks on London, plus one per cent. commission; the unused portion, if any, to be bought back from the holder of the Credit on its return, at the current buying rate of exchange for bankers' checks on London;

II. Against deposit of collateral for an amount of sufficient value to cover the face amount of the Credit, drafts drawn against Credits issued on this basis are charged to a temporary book account in the name of the holder of the Credit, at the current selling rate of exchange for London checks, plus one per cent. commission, and thirty days' interest at current rate. Adjustment of the account to be made upon surrender of the Credit;

III. Against a satisfactory guarantee of reimbursement for all drafts drawn against the Credit, immediately upon receipt of notice of drafts paid abroad, at the current selling rate for bankers' London checks, plus one per cent. commission, and thirty days' interest at current rate; the latter charge is calculated to cover the approximate time between payment abroad and the arrival of a remittance or reimbursement.

The largest number of Credits are issued to applicants, against guarantee, *supra* III, and a specimen form, therefore, is submitted of the obligation usually taken to cover the requirements.

Specimen Form of Guarantee.

(Name of Bank.)

CHICAGO, Illinois, _____, 19—.

To the CASHIER:

Having received from you a **Traveling Credit** in favor of

for _____, _____ hereby agree to reimburse you on demand for any drafts that may be drawn under the same, together with usual charges.

In case this Credit be lost or stolen, _____ hereby authorize you to send the usual circular to your correspondents notifying them of the loss, and to take such precaution as you may deem advisable for the prevention of fraud, and _____ agree to pay any expenses attending the same, and in case of the cashing of any drafts by any banker, under the usual precautions, and before the receipt of any such circular, _____ agree to indemnify you for any loss therefrom.

Yours, very truly,

(Signature of Guarantor.)

CHAPTER XIII.

COMMERCIAL LETTERS OF CREDIT.

THESE Instruments of Credit are designed for the use and requirements of the importers in this Country to effect payment for merchandise purchased by them from the exporters of foreign countries.

Commercial Letters of Credit are issued in pounds Sterling on England, marks on Germany, or francs on France, according to the wishes of the parties concerned, but as the Sterling Credit is negotiable throughout the world, exporters as a rule demand Sterling Credits. Attention, therefore, will be concentrated to the Sterling Credit, the underlying principles being applicable also to Credits issued in marks or francs.

The popularity of the Commercial Letter of Credit is increasing from year to year, because its employment as a means of payment for imported wares secures accrued advantages and benefits to both importers and exporters, not afforded by any other mode of reimbursement; to enumerate the

Advantageous Features Derived by Importers Through the Use of a Commercial Letter of Credit:

I. Merchandise can be purchased in any part of the globe on a cash basis, although actual payment of the cost of goods imported will not be demanded of the importers, by the banker furnishing the Credit, until maturity of respective drafts drawn by the exporters, being from one to six months after date of acceptance of drafts, according to tenor of relative Letter of Credit;

II. Shipments of merchandise must be made by exporters within a stipulated time, and evidence of each shipment must be furnished to the drawees under the Letter of Credit in the form of bills of lading, consular invoices, etc., and must be

attached to respective drafts, covering cost of merchandise, to insure the acceptance of the drafts, upon presentation to drawees;

III. Advance orders may be given by importers with exporters for the manufacture of goods, according to the specifications and requirements of the importers, without pre-payment of the value of the goods ordered, or a cash deposit, the Commercial Letter of Credit being sufficient security in the hands of the exporters, provided same has been "confirmed" by the drawees under the Credit.

Commercial Letters of Credit that have been confirmed by the drawees to the payees, or beneficiaries, can not be revoked or canceled **without** the consent of such payees, or beneficiaries; and drafts drawn against the respective Credit must be accepted by drawees, to the extent of the value of the merchandise manufactured, or in course of manufacture, by the payees of the Credit, prior to their receipt of cancelation or revocation of Credit.

Benefits Accruing to Exporters of Merchandise under Commercial Letters of Credit:

I. The exporters receive cash payment for all merchandise ordered under Credits on the date of shipment, that is to say, drafts covering the cost of merchandise, even if issued for a specified time after sight, in terms with Credit, can be converted into cash by discounting such drafts with their local bankers, and such conversion will be explained in due course;

II. The exporters may enter into the manufacture of goods for future delivery, or make shipments, as fast as goods are manufactured, according to contract with purchasers, since a confirmed Letter of Credit is an absolute guarantee of payment.

Before entering upon a detailed description of a transaction under a Commercial Letter of Credit, a specimen form of a type of Credit is first submitted as follows:

EXHIBIT I.

Specimen Commercial Letter of Credit.

THE NATIONAL BANK OF THE REPUBLIC OF CHICAGO.
 £10,000. CHICAGO, Illinois, June 25, 1903.
 To Messrs. JOHN C. ADAMS & CO., No. G. C. 102.
 Smyrna, Asiatic Turkey.

Gentlemen:—We hereby authorize you to value on The London City and Midland Bank, Limited, in London at sixty days' sight, for any sum or sums not exceeding in all, 10,000 pounds, Sterling, for invoice cost of figs and dates, _____
 _____ for account of Henry Smith & Co., Chicago, _____ goods to be shipped to the United States.

The Bills of Lading must be issued to the order of the shipper and endorsed in blank.

The shipment must be completed and the bills drawn within six months from this date, and the advice thereof, in duplicate, sent to The London City and Midland Bank, Limited, London, accompanied by one Bill of Lading and abstract of Invoice, and on receipt of these documents, the Bills will be duly honored.

The remaining Bills of Lading with certified Invoices and Consular Certificates must be sent direct to Messrs. G. W. Sherwood & Co. of New York City, for account of The National Bank of the Republic of Chicago, and a certificate to that effect must accompany draft.

We hereby agree with the drawers, endorsers, and *bona-fide* holders of drafts drawn under and in compliance with the terms of this Credit, that the same shall be duly honored upon presentation at the office of The London City and Midland Bank, Limited, London.

Drafts under this Credit must bear upon their face the words: "Drawn under The National Bank of the Republic of Chicago, Credit, No. G. C. 102, _____ dated June 25, 1903."

Insurance effected here. Respectfully yours,

(Signature of Bank's Officer.)

These Credits are issued in four parts, viz: one original is forwarded by the importers to the exporters, the parties accredited under the terms of the Credit; and three copies are distributed as follows: one copy is sent to the drawees, the London bankers who are authorized to protect drafts drawn against the Credit, together with instructions to accept drafts in accordance with the terms and conditions of the Credit; another copy is delivered to the importers for their files; and the remaining copy is retained by the banker issuing the Credit for his archives.

The copies held by the importers and the issuing banker have the following agreement, signed by the importers, on the reverse side of the Credit:

EXHIBIT II.

Form of Agreement for Commercial Letters of Credit.

CHICAGO, June 25, 1903.

To _____

Gentlemen:—Having received from your Bank Letter of Credit, No. 102, for ten thousand _____ pounds, Sterling, on London, _____ copy whereof is herewith annexed, we hereby agree to its terms and in consideration thereof bind ourselves to reimburse your Bank for any draft or drafts drawn thereunder, fifteen days prior to maturity thereof, at the current rate of exchange for first-class Bankers' Bills. It is understood that the commission for accepting under this Credit shall be one per cent. on drafts at sixty days' sight.

We hereby give you a specific claim and lien on all goods and merchandise, and the proceeds thereof, for which you may have paid or come under any engagements under this Credit, and on all policies of insurance which we agree to effect, on such goods and merchandise to an amount sufficient to cover your advances or engagements under this Credit, and on all bills of lading given for same, with full power and authority to take possession and dispose of the same at discretion, for your security or reimbursement, and to charge all expenses including commission for sale and guarantee; and we further agree to give you any additional security that may be demanded; and we further pledge to you as security for any other indebtedness of ours to you, any surplus that may remain, either in goods or the proceeds thereof, after providing for the acceptance under this Credit.

We further authorize you to cancel this Letter of Credit at any time to the extent that it shall not have been acted upon when notice of revocation is received by the user.

This obligation shall continue in force and be applicable to all transactions, notwithstanding any change in the individuals composing the respective firms, the parties to this contract, or either of them, or in that of the user of this Credit, whether such change shall arise from the accession of one or more new partners, or from the death or secession of any partner or partners. Yours respectfully,

(Signed) HENRY SMITH & Co.

Consider that Henry Smith & Co. have obtained from their bankers the Credit shown as Exhibit I for £10,000, in favor of John C. Adams & Co. of Smyrna, to be drawn against, by drafts at sixty days' sight on London, for the cost of figs and dates, to be shipped within six months from date of Credit.

Assume the bills of lading covering shipments to be made out to the order of the shipping exporters, John C. Adams & Co. of Smyrna, and by them **endorsed in blank**, so as to assign title and possession of goods shipped, to the **holders** of ladings.

Suppose also that on July 15, the first shipment is made by John C. Adams & Co., the value thereof amounting to £585, and, thereupon, John C. Adams & Co. issue a draft for that amount, attach properly executed documents, and present same, together with respective Letter of Credit to their local banker for negotiation.

The Smyrna banker will carefully examine the draft and appertaining documents, to determine that all papers are in conformity with the terms of Credit, and, if found correct, purchases the draft from John C. Adams & Co., at the current rate of exchange for sixty days' sight drafts on prime London bankers. The Smyrna banker will endorse the amount of the draft for £585 on the Credit, and return the letter to his clients for subsequent use. This terminates the transaction so far as John C. Adams & Co. are concerned with respect to this particular shipment.

The draft has now become the property of the Smyrna banker who immediately forwards the **Original**, (drafts are **always issued in two parts, Original and Duplicate,**) together with all relative documents, in terms with Credit, to his London correspondents, for presentation to drawee for acceptance, to fix date of maturity without delay.

The duplicate draft, the Smyrna banker may either endorse to his London correspondents and remit same to them for the credit of his account under discount, or hold same in his portfolio, for future remittance, interest in the meantime accruing to his benefit, at the rate of interest upon which the purchase of the draft was based, or he can immediately resell the draft in the open market in Smyrna, whichever suits his convenience.

The procedure of the London banker, named as drawee in the Credit, and who has been instructed to accept all drafts for account of the American bank by whom the Credit was issued, follows:

Having found the draft of £585 issued at sixty days' sight by John C. Adams & Co. of Smyrna, and relative documents in order, the London banker has accepted the draft on the day of presentation, say, July 20, to mature September 22, including three days of grace, and has charged the same, temporarily, to the bill or acceptance account of his American correspondent who issued the Credit, to be transferred to the debit of cash or current account at maturity, and prompt notification of his acceptance with full details, has been forwarded to his American correspondent.

The documents, that were attached to the draft of £585, are immediately forwarded by the London banker, in compliance with the terms of the Credit, to G. W. Sherwood & Co. of New York City, who are the custom house brokers for Henry Smith & Co. of Chicago, together with instructions that the documents are sent to them at the request, and for the account of the Chicago banker who issued the Credit. Duplicate documents will doubtless already have reached G. W. Sherwood & Co. from the banker in Smyrna, who negotiated the draft for John C. Adams & Co., in accordance with the tenor of the Credit, accompanied by similar instructions.

The duties of G. W. Sherwood & Co., the custom house brokers of New York City, follow:

Upon receipt of the documents, the New York agents await the arrival of the steamer, named in the bill of lading, wherein the merchandise has been shipped, to enable them to effect clearance through the United States Custom House, if goods are subject to duty, and reship the goods as per instructions previously given them by their clients, Henry Smith & Co. of Chicago.

The New York agents will be very careful to follow the orders of the **banker in Chicago** who issued the Credit, so as not to permit the merchandise to get out of his possession, or in any way to impair his **first lien on the goods**, unless instructions to the contrary have been received by them from the Chicago banker.

By this time, the Chicago banker will doubtless have received from his London correspondent advice pertaining to the acceptance of draft for £585 and immediately communicates such advice to Henry Smith & Co. of Chicago, taking concurrently a Trust Receipt from them, as his security and lien on the merchandise delivered to them; a specimen form of such Trust Receipt is submitted as follows:

EXHIBIT III.

Specimen Trust Receipt.

CHICAGO, Illinois, July 31, 1903.

Received from*_____the merchandise specified in the bill of lading per S. S. **Herculean**, dated July 15, 1903,_____1000 boxes figs, marked H. S. & Co., Chicago, 1000 boxes dates, marked H. S. & Co., Chicago,

_____and in consideration thereof, we hereby agree to hold said goods in trust with liberty to sell the same, and in case of sale to hand the avails as soon as received to the*_____as security for due provision for the acceptances of The London City and Midland Bank, Limited, of London, on our account noted at foot, and we further pledge to them said goods and the proceeds thereof as the security for the payment of any other indebtedness of ours to*_____.

We further agree to keep said property insured against fire, payable in case of loss to*_____with the understanding that said Bank shall not be chargeable with any expenses incurred thereon, the intention of this arrangement being to protect and preserve unimpaired the lien of*_____on said property.

(Signed) HENRY SMITH & CO.

Memorandum against acceptance under

Letter of Credit, No. 102,

£585, maturing abroad, September 22, 1903,

due and payable here, September 7, 1903.

*Name of Bank.

The delivery of the goods against Trust Receipt depends upon the standing and financial responsibility of Henry Smith & Co. If the firm is possessed of large means and enjoys high credit, this form of security is deemed quite ample, but if the Chicago banker does not consider them sufficiently strong to entitle them to the possession of the merchandise, he may insist upon the goods being warehoused upon arrival and that the warehouse receipt be issued in his name.

In this manner, the Chicago banker can retain the absolute possession and control of the merchandise imported, making deliveries from the warehouse, from time to time, to such parties as Henry Smith & Co. may instruct, against collateral or cash payment for the value of goods delivered.

On September 7, under terms of Credit, fifteen days prior to maturity of the draft for £585, the Chicago banker will collect from Henry Smith & Co. the amount due him, at the current rate of exchange for bankers' checks on London, plus commission for the draft of £585 and by so doing terminate the transaction.

To speak, in closing this Chapter, to the question of profits derived from Commercial Letters of Credit, it follows as a matter of course that the commission charged for their issuance varies, according to the standing of the applicants for such Credits and the tenor of the drafts to be drawn thereon, and that the commission therefor is a matter of negotiation between the parties concerned.

CHAPTER XIV,
SYSTEM OF ISSUING DRAFTS UPON ALL THE
COUNTRIES OF THE WORLD WHERE
NO ACTIVE ACCOUNTS OF
DRAWERS ARE KEPT.

ACTIVE accounts are usually kept in and limited to England, Germany, France, Austria, Holland, Belgium, Switzerland, Italy, and the Scandinavian countries, affording facilities for the issuance of drafts upon the leading cities of those countries.

Advertisements of banks, frequently, read in substance like this: "Drafts issued, payable in all the leading cities of the world," and the manner of their issue is the subject for present consideration.

Chapter XII, devoted to Travelers' Letters of Credit, outlined the necessary procedure to secure correspondents in every part of the globe to act as agents for the negotiation of drafts, drawn on London, issued against American Letters of Credit. All foreign agents, acting in this capacity for American banks, have in their possession the specimen signature of the officers of each bank for their guidance.

The relations entered into by American banks with all of their foreign agents will not be confined exclusively to the primary object, the protection of American Travelers' Letters of Credit, but may be extended to include other transactions within the province of banking, and American banks as a matter of course will avail themselves of the services of their foreign correspondents, whenever occasion demands.

The book appertaining to American Letters of Credit, containing the List of Correspondents abroad, also represents

the names of world-wide agents upon whom request may be made to negotiate drafts issued by American bankers.

Quotations are not current covering the rates of exchanges on the various countries, and without cash balances at the disposal of the American banker there, it would not be advisable to issue drafts payable in the money of the respective countries, but issue, instead, drafts on the London correspondents of the American banker, payable in pounds, Sterling, marked on their face: "This draft will be negotiated, upon presentation, by _____" (inserting the name of agent).

To illustrate: A customer of a Chicago bank calls and desires to purchase a draft on Calcutta, India, for 500 rupees, a rupee being the monetary unit of India. By reference to Chapter XXVIII showing the tabulated Monetary Systems of the World, it will be found that the approximate value of the rupee is thirty-three cents; hence 500 rupees would be worth 500 times thirty-three cents, or \$165. The transaction now converts itself into selling the Chicago customer a draft on London payable in pounds, Sterling, for the equivalent of \$165 at the current rate of exchange of the day. Assume that the rate is \$4.88 a pound, Sterling, and since \$4.88 will buy one pound, Sterling, \$165 will buy as many pounds as \$4.88 is contained in \$165, or 33.812 times, equal to 33 pounds, 16 shillings and 3 pence, expressed £33.16/3 Sterling—see Table pertaining to conversion of Sterling, expressed decimally, to shillings and pence.

The agent at Calcutta is, say, the Chartered Bank of India, Australia and China, and the London correspondent of the American bank is The London City and Midland Bank, Limited, the Chicago bank would then sell its customer a draft for £33.16/3 Sterling, drawn upon The London City and Midland Bank, Limited, "London," marked across its face: "This draft will be negotiated, upon presentation, by the

Chartered Bank of India, Australia and China, Calcutta, India," in payment thereof the Chicago bank would receive \$165.

As drafts on London are in demand and negotiable by bankers in all parts of the civilized world, the Calcutta correspondent will cheerfully negotiate the drafts of the Chicago bank, paying the equivalent in rupees (the money of India), at the current rate of exchange for bankers' checks on London, to the payee, and the Calcutta bank in turn would reimburse itself by remitting the London draft for collection and credit, to its London agents, or selling such draft in the open market.

The Chicago bank would advise the draft to its London correspondent on date of issue, and also forward simultaneous advice, together with request of negotiation, to its agent in Calcutta.

Of course, the above draft could have been issued by the Chicago bank for 500 rupees upon its Calcutta agent direct, and in that event would have requested it to protect the draft, and reimburse itself for its equivalent by drawing its own draft for account of the Chicago Bank upon its London correspondent, authorizing the latter to honor to its debit, the draft of the Chicago bank, giving the **approximate amount** of valuation of draft, being in this case thirty-four pounds. But, as the Chicago bank would have to sustain the **loss of exchange** by virtue of conversion of rupees into Sterling by this method of procedure, and for the other reasons previously stated, in all cases it is recommended that the issuance of drafts on London be made payable in pounds, Sterling, as outlined above; especially will it be well to note this recommendation with respect to the issuance of all drafts on countries on a silver monetary basis.

Illustration: a suppositious sale of a draft on Mexico, a country on a silver basis, to emphasize the danger of loss of

exchange, as the result of conversion previously referred to, that the drawer of a draft may sustain were the draft issued by him in the monetary unit of the country where payable, instead of in pounds, Sterling, on London.

In February last, a certain banker sold a draft on Mexico City payable in Mexican dollars at the rate of $37\frac{3}{4}$ cents per Mexican dollar, advising the draft on date of issue to his correspondent in Mexico, and requesting reimbursement of its equivalent by draft upon his New York bankers. The banker was cognizant of the fact that the value of the Mexican dollar was subject to sudden and violent fluctuations, and knowing this, endeavored to protect himself from a possible loss by charging his customer a price in excess of the current rate of exchange for the Mexican dollar, and in so doing believed himself amply protected.

In due course, his Mexican correspondent acknowledged receipt of advice, relating to draft issued, and informed him that the draft would be promptly protected upon presentation, and reimbursed for, in the manner desired on the date of payment of same.

Instead of the draft being presented for payment, within the usual time, it was held by the payee, who happened to be the purchaser, until April the fifteenth. During the intervening time, February to April, 1903, the price of silver steadily advanced so that the Mexican dollar sold by the banker and represented by his draft issued in February, at the rate of $37\frac{3}{4}$ cents, was quoted and converted in April by his correspondent in Mexico City at the rate of $38\frac{7}{8}$ cents resulting in a loss to the banker issuing the draft of $1\frac{1}{8}$ cents on each dollar less the accrued interest on the money paid for the draft during its circulation. Had the banker anticipated or foreseen the long delay of time, intentional or otherwise, occasioned from date of issue to date of payment and reimbursement of this draft, he could have protected himself in one of the following ways:

I. Demanded an excessively heavy premium above the current rate of exchange for the price of Mexican dollars on the date of issue of the draft;

II. Or would have covered the sale by a simultaneous remittance to drawee of an equivalent amount of Mexican dollars, for the credit of his account, pending the presentation and payment of the draft sold;

III. Or, instead of issuing draft in Mexican dollars, would have given the purchaser his draft on London for the equivalent in pounds, Sterling, or draft on New York City for the equivalent in American dollars, gold;

and in all cases there should be written across the face of the draft: "This draft will be negotiated, upon presentation, by _____," inserting name of the Mexican correspondent, and treated in the manner as previously explained.

If the applicant for a draft on a country on a silver basis insists upon having a draft payable in the money of the respective country, the banker selling the same will protect himself, either by remittance on date of sale to the drawee, as outlined in Paragraph II *supra*, or by limitation of the period of time within which the draft should be presented to drawee for payment.

To illustrate: a draft on Mexico City sold in Chicago should under the ordinary circumstances be presented to the drawee within six days of the date of issue, so that allowing four days' leeway, the limitation of time of payment should be ten days, and the draft should read on its face, "This draft must be presented for payment to drawee within ten days of date of issue, otherwise, payment will be refused," and advised accordingly to the drawee.

In this manner, purchases of drafts payable in countries on a silver basis, in the money of the country, can not be held by purchasers, or other persons obtaining title, thereto, on the underlying basis of a speculation in the value of silver, beyond the time of the date of sale of draft to within the time of limitation, with respect to payment, thereof, because the drafts would be sold upon the condition of time limitation of payment by drawees, and would have to be referred for redemption to the drawers, upon the basis of the original sale, after the expiration of the time limit.

Where drafts are desired for payment in the Pan-American countries, drafts may be issued on New York City payable in American dollars, gold, instead of on London, payable in pounds, Sterling, marked on the face as follows: "This draft will be negotiated, upon presentation, by _____, "—here insert the name of correspondent.

New York exchange is equally as available by bankers in the Pan-American countries, as London exchange, since Pan-American bankers have New York, as well as London, agents, nowadays.

Drafts of this nature should be advised to the New York correspondents, if the banker issuing the obligation is in the habit of advising his drafts, and a request to negotiate the paper should be addressed to the Pan-American correspondents specified as drawees on the face of the drafts.

CHAPTER XV.

NEW YORK CITY PRACTICALLY ABSORBS BY PURCHASE ALL AMERICAN FOREIGN EXCHANGE.

NEW York City is the purchasing center of practically the entire amount of Foreign Credit balances created by Foreign Bills of Exchange purchased by bankers throughout the United States.

New York City is, indeed, the financial metropolis of the United States of America; and it is safe to say, that there is, perhaps, no feature pertaining to banking throughout the Country so dependent upon New York financiers, as Foreign Exchange.

The very foundation of this branch of banking is constructed by the New York bankers, and from their banking-houses emanate the basic prices and quotations upon which foreign bills are bought and sold throughout the United States.

It is the custom of New York foreign exchange brokers to furnish their Western clients, direct, or through their local representatives, daily market quotations, and to promptly advise them of fluctuations throughout the day. So closely is the West allied to the East, in this respect, that any interruption caused by delayed or suspended telegraphic service, immediately superinduces a practical stand-still of exchange transactions, and operations thereafter must necessarily be made in the "dark" until free communication is again renewed between the cities.

In the Chapter on "Foreign Exchange," the total amount of foreign exchange purchased by Chicago bankers was estimated in round numbers at approximately \$500,000,000 annually. A fair proportion of that amount, required by local importers in payment of merchandise purchased abroad, and

by local banks for reimbursement of amounts drawn against their Travelers' and Commercial Letters of Credit, would be twenty per cent., or \$100,000,000; and the remainder, or \$400,000,000, is sold in the New York market.

The importation of goods by local merchants is not as small as the above figures would indicate, for the reason that a large portion of imported wares are either purchased from New York agents of European firms, or are paid for, by the purchase of foreign exchange in New York City by the Eastern representatives of local merchants.

From this fact it will be observed, that **indirectly**, the New York City bankers materially assist in financing the foreign bills of exchange, issued by the large exporters, and that the condition of the Chicago bankers without such coöperation by the New York City financiers would soon become congested to such a degree as to preclude the negotiation by local bankers of foreign exchange.

The absorptive power of the New York market, to digest not only the surplus foreign exchange of the Chicago market, but that of the entire United States as well, has been demonstrated for many years.

The reason for this can be attributed to the fact that International Trade Balances are at the present day, and always will be, adjusted by the financiers of New York City.

CHAPTER XVI.

LONDON AGENCIES OF EUROPEAN CONTINENTAL BANKING INSTITUTIONS.

THERE are branch offices of practically all the large European continental banking institutions in the City of London. What has created the demand for the establishment of these agencies?

Admitting that the international relations of the various countries are of magnificent dimensions, and in consequence thereof, payments for exports of the merchants of the different countries are made by remittances from all parts of the world, drawn upon London in pounds, Sterling, the facilities for collecting these items through their own branch offices in London, would not be, in themselves, a sufficient incentive. Such collections could be made through the medium of London correspondents, in like manner, as American bankers are doing today. What, then, are the reasons? To explain:

English Money Market Open to all Countries.

The London agency is a most valuable adjunct to the parent European continental banking institution for the outlet of loanable funds, at times when conditions are more favorable for the employment of money in the English market than at home.

The month of January, 1903, affords an excellent basis for illustration:

In that month, private discounts reached the low rate of one and three-quarters per cent. per annum in Germany, while the rate in London was about four per cent. per annum.

Under those conditions, it can be plainly seen, that it was much more profitable for the German banker to employ his

money by discounting bills in the London market than discounting paper at home.

In addition to the difference between the discount rates, the German banker, remitting money to his London branch office, by the purchase in Germany of sight drafts on London, when the rate of exchange was as low as M.20.45 ½ per pound Sterling, realized an additional profit of seven pfennig on every pound Sterling, as the above condition soon forced the price of sight drafts on London to 20 marks, 52 ½ pfennig, the export price from Germany to England for bullion, as gold could be profitably forwarded at the latter rate.

The European continental banker, availing himself, at favorable times, of making London loans, by discounting Sterling bills of exchange through the channels of his London office, does practically the same thing that the American foreign exchange banker does by his purchase of "Foreign Bills of Exchange for Investment," and explained fully in Chapter X.

The difference being, that the American banker is not obliged to open an office for this purpose in London, as he can accomplish practically the same thing at his desk, with the advantage, however, that he has the entire European money markets at his disposal and is not exclusively confined to the English market.

As a matter of fact, the European continental banker in London, frequently discounts the same piece of paper that has been held in the portfolio of the American banker, for a portion of the life of the paper, and it is the unexpired time of the draft to maturity that is discounted by the branch London banker.

This is, indeed, a peculiar state of affairs, and will doubtless be met by the inquiry: How is it possible that the

American banker can transact such exchanges at home, that require the German or French banker to be domiciled in London to accomplish? The reply is: that the opportunities afforded the American banker for negotiating the immense amount of foreign bills of exchange drawn against exports to the various European countries, particularly England, are not presented to the German and French bankers, as the **exports from their respective countries** are mainly, to different parts of the globe, and are paid for, in different manner.

Of course, in addition to discounting bills, the foreign London banker can make loans direct to local merchants and transact a general banking business, just the same, for example, as the New York agencies of Canadian banking institutions, serve their home offices.

CHAPTER XVII.

THE ENGLISH ACCOUNT.

IN its colossal proportions, the English Account towers over all other European banking connections with American banking institutions, and the larger percentage of all international banking transactions of the United States, directly and indirectly, is recorded in its folios.

The success of the Foreign Department, at least from a financial standpoint, is dependent upon its results, and London bankers, unlike their continental neighbors, have not, as yet, departed from their custom of charging a commission for conducting foreign accounts, although concessions by the London banks have been made in this direction within the last few years.

The leading English banks exacted formerly a commission of about one-sixteenth per cent. on all items clearing through the account and an extra commission for paying drafts drawn against Travelers' Letters of Credit, but at the present day, accounts can be opened on much more favorable terms. Of course this is a matter for negotiation between the contracting parties, and the rate of commission to be paid is governed by the aggregate amount of business cleared through the account and the nature of the transactions. Were the account that of a prominent bank, doing, or expecting to do, a large foreign exchange business, no difficulty should be encountered in obtaining the following terms and conditions from the London banker:

Terms and Conditions of the English Account.

Documentary bills of exchange, $1/40^{\circ}\%$ commission;

Checks and other cash items not
accompanied by documents, } Free of commission;

Encashment of drafts, drawn
under Travelers' Letters of
Credit, } $1/40^{\circ}\%$ commission;

Accepting drafts, drawn under
covered Commercial Letters
of Credit, } $1/16^{\circ}\%$ commission;

Interest on cash credit
balances, } $1^{\circ}\%$ below Bank of
England rate;

Interest on cash debit balances,
secured by unmatured docu-
mentary bills held in portfolio
for collection, } Bank of England Rate,
or $1^{\circ}\%$ above.

Postage and all telegraphic expenses incurred to be debited
to the account.

A recent departure from the foregoing conventional scale of commission was manifested by an offer from one of the foremost European banks to conduct the account of an American bank free from any commission, and in lieu of that concession the account should always show a stipulated minimum cash credit balance whereon no interest was to be allowed; such an arrangement would permit the European banker to make time loans with the money thus pledged, and the interest accruing thereon would represent his compensation for handling the account. At a glance it will be seen that the amount of money thus hypothecated would have to be for an amount sufficiently large, so that its earning capacity, at a comparatively low rate of interest, would, approximately, offset the loss sustained in waiving the usual charge of commission. Under this plan, the American bank in whose name the account is opened would be compelled to tie up this amount of money, and would not be in a position to avail itself of a favorable exchange market by checking to the full extent against its cash funds abroad, and furthermore, would be fostering unsafe banking methods by rendering this pledged cash balance unavailable, even in times of emergency. This proposition, therefore, is one that can not be recommended.

English Account on Commission Basis.

It is much more advisable for the American bank to pay its correspondent a fair remuneration for its services, and be privileged to withdraw its funds at any and all times, upon demand, being a prerogative that a conservative banker should never relinquish under any circumstance or consideration.

Assuming that the American bank has established London connections, on the commission basis, as outlined above, the actual working of this account follows:

The foreign exchange broker has made his first call and the American bank has received its London cablegram showing that its operations of the day must be based on the following market quotations:

ALLAN KNIGHT
Certified Public Accountant
SAN FRANCISCO

Factors Controlling Daily Exchange Operations.

Bank of England discount rate, 4% per annum;

Private rate of discount for long
time drafts on prime English
banks or bankers to be dis-
counted upon arrival, $3\frac{1}{2}\%$ per annum;

Private rate of discount for long
time drafts on prime mercan-
tile English firms to be dis-
counted upon arrival, $3\frac{5}{8}\%$ per annum;

Private rate of discount for short
time drafts on prime mercan-
tile English firms to be dis-
counted upon arrival, $3\frac{3}{4}\%$ per annum;

Retirement rate, or the rate of
discount allowed drawees of
Documentary Payment Bills
as a rebate for the payment
or retirement of bills prior to
maturity, 3% per annum;

The price for demand drafts of
the American bank on Lon-
don to be sold to New York
banks, $\$4.88$ per pound,
Sterling;

The price bid by New York
bankers for cable transfers
on London, $\$4.88\frac{1}{2}$ per pound,
Sterling.

Since the private discount rates of London bankers fluctuate from day to day, according to the monetary condition, all conservative American bankers have entered into arrangement whereby their London correspondents are requested to furnish daily telegraphic quotations at which they are willing to discount, upon arrival, the bills of exchange purchased by their American friends on the basis of these quotations. It is the custom, in order that the London correspondents may know to what extent discount rates have been secured, to inform them by telegraph at the close of each day's business the aggregate amount of bills bought during the day. It will be readily understood that this is the proper and safe way to purchase bills, for it completes the entire transaction and insures the profit on which the purchase was based. Of course, there are times when it may appear advisable not to secure the rate of discount but to speculate on same during the transit of the bills, basing expectations on a lower market upon arrival.

This method of doing business should not be encouraged, involving, as it does, an element of speculation, always to be avoided if the business is to be conducted on a strictly legitimate banking basis; and furthermore, the London banker, a better judge of the discount market, being in closer touch therewith, will usually give his American correspondent the benefit of his opinion by reflecting same in the quotations furnished the American bank, particularly when as in many cases, the American banker has more than one London correspondent, and such agent knows that business from the American banker is secured on a competitive basis.

The rate of discount, of course, varies, according to the tenor of the bill and the name of the drawee or acceptor. A bill drawn upon, and accepted by a prime bank or banker, will always be discounted at a lower rate than a bill drawn upon and accepted by a first-class merchant. And, although the drawers and endorsers of bills of exchange are not released

from their joint and several liabilities until the final payment of such bills, it is a well-established fact that the rate of discount is determined by English bankers from the names of the acceptors. The position of the American banker purchasing the bills, however, is quite different, inasmuch as his security, when the bill is not accompanied by documents, lies entirely in the name and financial strength of the drawers, and endorsers, if any, until the bill has been accepted, which ordinarily, is about twelve days after the purchase, consequently he will carefully scrutinize these names, and thoroughly familiarize himself with the financial responsibility of such drawers and endorsers, if any, before making purchase.

Short bills, that is to say, bills maturing from, say, three to thirty days from date of acceptance, usually command a higher rate of discount than bills running for a longer period of time. This, however, is not always the case, and is governed by the money market.

The reason why short bills are not generally taken at as low a rate of discount as bills for longer life, is because bankers discounting them are averse to re-discounting them in the open market and hold them in portfolio until maturity, whereas they have no hesitancy in offering long bills for re-discount in the open market. There are times when money is plenty, and bankers generally desire to make **short loans** at a lower rate of interest than they would be willing to take for long loans, and it is when conditions of this nature exist, that short bills can be discounted to better advantage than paper of longer life.

A discount house may have contracted to discount a large amount of bills for an American correspondent at a rate of three and one-half per cent. "to arrive." These bills are still in transit and will not arrive in London for, say, three days hence. Owing to an unexpected supply of funds seeking

investment in the London money market, discounts have eased, and are now ruling at three per cent., so that the discount house, having secured a line of bills from its American friends, a few days before, at a three and one-half per cent. rate, is now enabled to place the bills for delivery within three days, in the open market at three per cent., the difference being their profit in the transaction.

Documentary Payment Bills.

One class of bills not discountable (except indirectly—as hereinafter set forth) in the London money market are known as documentary payment bills, and are drawn by exporters upon English merchants against shipments of merchandise, the underlying bills of lading and other appertaining documents accompanying the respective drafts, with specific instructions that the documents are to be surrendered to the drawees, **only on payment of the drafts.**

The drawee of these drafts has the privilege of retiring, or paying same, at any time during the life of the drafts, under a rebate for the unexpired time from the date of retirement to maturity, at what is called **the retirement rate of discount.**

The retirement rate of discount is ordinarily one per cent. below the Bank of England discount rate, but is not, as is frequently erroneously stated, arrived at in this manner. It is, however, dependent upon the rate of interest allowed on short time deposits by the leading London joint-stock companies, and always is one-half per cent. in excess of this rate.

The question is raised: Why is it, that documentary payment bills can not be discounted? The reasons are these: the conservatism of the English discount houses preclude their discounting any form of paper that can not be readily realized upon by re-discounting, in case of an emergency, and, **because the date of payment is not fixed;** such payment is

optional with the drawee, and he may pay the draft one day after his acceptance, or he may not pay it until maturity.

If the goods securing the draft are non-perishable and the drawee has no immediate need for them, such goods are warehoused and are not withdrawn until the drawee actually requires the goods for delivery, and has obtained possession of the relative documents, by payment of the draft.

It is for this reason that the draft must remain in the possession of the banker, originally presenting it for acceptance, and holding it at the pleasure of payment by the drawee or acceptor, so that he may know where the draft is payable when the time comes that he desires to acquire ownership of the appertaining merchandise by payment of the draft.

The Bank of England Discount Rate.

This term is applied to the minimum rate at which the Bank of England will discount bills.

The rate is fixed by the Directors of the Bank on Thursday of each week. Directors' meetings rarely take place on any other day, except in times of disquietude, when special meetings may be called. The Bank of England rate is far-reaching in its effects, as the monetary conditions throughout the entire world are directly or indirectly, materially or sentimentally, affected by it. This rate acts as the barometer of the financial conditions of the various nations, and any factors of political or financial significance are reflected by its course.

The power, that the Bank of England possesses in controlling the discount market both of Great Britain and the continental centers as well, is forcibly demonstrated by the fact, that in three instances, only, during the past twenty years, has the Bank of England discount rate reached six per cent., and for ten years from 1882 to 1892, five per cent. was the highest official rate recorded.* The stability of the London

* Except from February 2, 1882, to February 23, 1882, and from December 30, 1889, to February 20, 1890, when the rate was six per cent. per annum.

money market can not be more clearly illustrated, because, during this period of time, many disturbing elements transpired, that would have created havoc with the monetary conditions of any other country, not protected by the practically unlimited power of the Bank of England, to control the situation, through its influence.

To give an idea of the importance attached to the fluctuations of the discount rate of this Bank, it may be pertinent to chronicle the various interests affected by such rate:

The Discount Rate of the Bank of England:

I. Establishes the minimum rate at which the Bank of England will discount acceptable paper;

II. Fixes the rate of interest allowed by London joint-stock companies, on short deposits, since this rate is one and one-half per cent. under the Bank of England rate;

III. Determines the rate of interest allowed by London bankers on cash balances to the credit of foreign correspondents, keeping active accounts with them, in so much that this rate is usually one-half to one per cent. below the Bank rate;

IV. Serves also to fix the rate of interest charged on cash overdrafts, on running accounts, as debit balances are generally subject to the Bank rate, or one-half to one per cent. above, according to agreement;

V. Establishes the open market discount rate in Great Britain, at which, private bankers, London joint-stock companies, and discount houses, will discount paper for local or foreign account, the rate ordinarily being from one-quarter to one-half per cent. below the Bank rate;

VI. Governs also the "Retirement Rate of Discount" on documentary payment bills, which is the rate of interest rebated

to the drawee, or acceptor, of a documentary payment bill for the time from the date of retirement or prepayment, to the date of maturity of the bill, this rate being one-half per cent. above the rate of interest allowed by London joint-stock companies for short time deposits, which rate is based on the Bank rate as above;

VII. Affects the value of all international bills of exchange, as an advance in the Bank rate either advances the rate of exchange for a demand, Sterling draft, in a foreign country, or depreciates the worth of a long time Sterling bill, as the interest rate for credit balances and the discount rate for long time paper are indirectly dependent upon the Bank rate;

VIII. Has the power of protecting the gold reserve held by the Bank of England, and of checking any protracted movements of gold importations by foreign nations, inasmuch as an advance in the Bank rate adjusts the rates of foreign exchange to a point where operations of this nature become unprofitable;

IX. Invites and attracts the deposits of foreign banks with London correspondents, as an advance in the Bank rate, to a figure in excess of the earning capacity at home, induces continental money lenders to seek the London market for investment of their funds;

X. Indirectly, has a tendency to depress or advance the values of stocks listed on the New York Stock Exchange—an advance in the Bank rate causing a decline in stock values, and a reduction in the Bank rate usually having the opposite effect, because the values of stocks are largely dependent upon the monetary conditions obtaining in New York, and as New York bankers in periods of stringency, nowadays, resort to relieve the situation by issuing Finance Bills drawn upon English bankers, the Bank of England rate, indirectly, either facilitates or precludes their course of action as explained in Chapter VI, devoted to Finance Bills.

There are many other interests, both of a commercial and financial nature, of minor importance, affected by the Bank rate, but the preceding citations of the influences and scope thereof it would seem are quite sufficient to show why so much interest is manifested in the weekly action of the Directors of the Bank of England with respect to the Bank's minimum rate of discount, and commonly called the "Bank of England rate."

It quite frequently happens that discount rates in the open money market are quoted considerably lower than the Bank of England rate, caused by a sudden plethora of money, and the Bank of England corrects that condition by borrowing itself, thereby absorbing the surplus funds seeking investment, and restoring the open discount rate to the normal difference between it and the Bank rate, or if the rates for cheaper money are justified by the prevailing conditions, the Directors reduce the Bank's rate at their next meeting. In this manner, the Bank acts as the guide of the money market rate, and its opinions are so much respected as to be emulated by continental banks. If, therefore, the open market rate of discount declines to a point in excess of one-half per cent. under the Bank rate, and is permitted to remain there for any length of time, it generally forecasts a reduction in the Bank rate.

A probable prospective advance in the Bank rate is usually foreshadowed by an advance in the open market discount rate to a figure equivalent to, or in excess of, the Bank rate. It is, however, very difficult to accurately foretell, the action of the Directors with regard to the Bank rate, since the money market is very sensitive, and conditions frequently change over night.

Explanation has preceded of the meaning of the terms—private or open discount rate, retirement rate of discount, and the Bank of England rate, and furthermore what particular

rate of discount applies to the different types of documentary bills of exchange—in order to clearly understand (with the aid of the terms upon which the London Account is conducted and the rates of discount assumed) the illustrations covering the operations to ascertain the value of the various kinds of foreign bills of exchange that follow:

In computing the prices that can be paid for Sterling exchange, £100 of the value of \$4.85 per pound, Sterling, or say \$485, will be used as a basis, and the interest will be calculated on a scale of 365 days to the year, and three days of grace on time bills.

This is the customary practice among bankers and answers all practical purposes, in fact, this method of calculation has been so universally adopted that printed interest tables have been compiled on that basis and are in general use.

The English stamp duty on checks and three days' sight drafts is one pence for each appoint, irrespective of amount, and all other time drafts are subject to a stamp duty of one shilling per £100 or fraction thereof, or say, one-twentieth per cent.

To proceed to determine what prices can be paid by the American bank, allowing a profit of one-fourth of a cent per pound, about one-twentieth per cent., on each bill for the following foreign bills of exchange, and assumed to have been tendered to it for sale:

What price can be paid for a ninety-day sight draft on prime London bank, documents against acceptance:

EXAMPLE I.

Basis: £100 = \$485.

Commission charged to account of American bank by London banker,	- - -	1/40%,	.12
Discount to be deducted by London banker, 93 days' interest at 3½% per annum on £100, \$485,	- - - - -	-	4.32
English stamp duty,	- - - -	1/20%,	.24
Margin of profit for American bank, ¼ cent per £, or,	- - - -	1/20%,	.24
Total charges,	- - - -	-	\$4.92

Now, if the total charges on a draft for £100 amount to \$4.92, the charges on one pound will amount to 1/100 part of \$4.92, or .0492 per pound, Sterling.

The foregoing operation shows that a ninety-day bill is worth 4 92/100 cents per pound, Sterling, less than a demand bill, consequently, if the American banker can sell his demand draft at \$4.88 on the day of the purchase of the ninety-day bill, he must deduct .0492 from this rate, giving the rate of \$4.8308, or, approximately, \$4.83 1/16, the price he could offer to pay for the ninety-day bill, allowing a profit of one-quarter cent per pound, Sterling, on the transaction.

What price can be paid for a sixty-day sight draft on prime mercantile house, documents against acceptance:

EXAMPLE II.

Basis, £100 = \$4.85.

Commission of London banker, - - - 1/40%, .12

Discount to be deducted by London banker,

63 days' interest at 3 5/8% per annum, 3.03

English stamp duty, - - - - - 1/20%, .24

Margin of profit, 1/4 cent per pound, - 1/20%, .24

Total charges per 100 pounds, \$3.63

Deduct from the price at which demand draft

can be sold, *viz*, per pound, - - - 4.88

Less charges as above on one pound, .0363, .0363

per pound, - - - - - \$4.8437

or, say, \$4.84 3/8, the price to be paid for a sixty-day sight draft on London merchants, documents against acceptance.

The calculation is exactly the same in arriving at the value of a sixty-day draft on a merchant, documents deliverable on acceptance, as to ascertain the worth of a ninety-day draft on a banker, with the exception that in the former estimate deduction is made of sixty-three days' interest at three and five-eighths per cent. per annum, as against ninety-three days' interest at three and one-half per cent. per annum in the latter case, owing to the difference in the tenor of the draft and the difference in the discount rate in London between an acceptance by a merchant and that of a banker.

What bid shall be made for a ten-day sight draft on a prime merchant, documents deliverable against acceptance:

EXAMPLE III.

Basis, £100 = \$485.

Discount to be deducted by the London

banker, 13 days at $3\frac{3}{4}\%$ per annum, -	.66
Commission of London banker, - - $1/40\%$,	.12
English stamp duty, - - - $1/20\%$,	.24
Margin of profit, $\frac{1}{4}$ cent per pound, - $1/20\%$,	.24
Total charges per £100, -	<u>\$1.26</u>
per £, -	.0126

Price American banker can realize for his

London check, - - - -	\$4.88
Less charges, as above, - - -	.0126
Price he can pay, - -	<u>\4.86\frac{3}{4}$</u>

What price can be paid for a sixty-day draft drawn on a merchant, documents deliverable against payment, covering a shipment of perishable goods:

EXAMPLE IV.

Basis, £100 = \$485.

Retirement rate of discount at which draft may be retired at option of drawee, under.

rebate, 63 days' interest at 3% , - -	\$2.52
Commission of London banker, - - $1/40\%$,	.12
English stamp duty, - - - $1/20\%$,	.24
Margin of profit, $\frac{1}{4}$ cent per pound, - $1/20\%$,	.24
Total charges per £100, - -	<u>\$3.12</u>
per £ - -	.0312

deduct from \$4.88, the price demand draft of American banker can be sold, to give him a rate of \$4.84 $\frac{7}{8}$ that he can afford to pay.

Bills Secured by Perishable Goods.

In connection with documentary payment bills, mention may be made of their division into two classes, to-wit:

CLASS A:

These bills are drawn against what is termed **perishable** merchandise, including fresh meats, lard, oleo, stearine, tallow, etc., and are therefore usually paid by the drawee, under rebate at retirement rate of discount, upon arrival of the merchandise, usually within a few days after the acceptance of the draft, as freight of this nature is always carried by fast steamers, to insure the delivery with the least possible delay.

This class of bills can consequently be purchased on practically the same basis as if drawn on prime merchants with documents to be surrendered on **acceptance**, in fact, such bills command a higher price than discountable acceptance bills, for the reason that acceptance bills are subject to the private open market discount rate, ordinarily higher than the retirement rate of discount applying to payment bills.

It does not matter to the purchaser of bills whether the bills are bought with documents on acceptance, provided the acceptor is financially strong, or documentary payment bills that are **promptly** retired by drawee, since documentary acceptance bills are credited to the American banker's London account after acceptance, under discount deducted by his London banker, and documentary payment bills (of this class) are credited, also, practically upon acceptance, under rebate allowed drawee, at the retirement rate.

Both documentary acceptance and documentary payment bills of this type may, therefore, be classified in the same category and be treated as cash remittances, and may be checked against, by the remitting banker, at his pleasure, without fear of creating an overdraft of his London cash account.

To pass on to the consideration of the other class of documentary payment bills, and their difference from those secured by perishable goods :

Bills Secured by Non-Perishable Goods:

CLASS B.

These bills of exchange are drawn against shipments of non-perishable merchandise, being such articles as flour, cereals, canned meats, etc. Because there is no danger of deterioration in quality during transit, freight of this kind is generally consigned to slow steamers and is, in almost all instances, warehoused upon arrival at its destination.

These goods are seldom withdrawn from storage, until payment of the drafts, at maturity, unless there is urgent demand upon the drawee of the appertaining drafts, by his customers to whom the goods may have been sold, for prompt delivery of same, or, unless his stock on hand, of similar goods has been exhausted, so as to require immediate replenishment.

From the foregoing established facts, the safe calculation for the purchase of drafts secured by non-perishable merchandise is upon the basis of **payment at maturity**; and is equiva-

lent to investing the money for sixty days, if drafts are drawn at sixty days' sight, as they usually are, at the retirement rate of discount obtaining on the day of the purchase of the bills.

Few Foreign Departments have a sufficient amount of money at command to permit the investment of funds in this way; these Departments are generally given a stipulated amount of working capital, and as the margin of profit is very small, their managers are compelled to confine themselves to the purchase of bills readily discountable, so that its working capital can be constantly turning over, and thus operate on the same lines as the merchant conducting his business on the basis of "quick sales and small profits."

Fortunately, however, a plan has been devised whereby these bills can be bought upon a discount basis, enabling the American banker to pay for them within about five-eighths cent per pound as much as for bills that can be discounted by bankers.

The operation is this: although, not discountable, as before said, documentary payment bills are, however, accepted as collateral by the London banker, and the remitting banker is privileged to draw against such bills his own long time drafts easily convertible into cash by sale in the open market, or by remitting such drafts to his discount house in London for discount.

There are many bankers opposed to offering their own time bills for sale because such a practice, if indulged in freely, may present certain obvious objections.

What price can be paid for Class B bills, upon the basis of the American banker issuing his own sixty-day sight bills, there against, and remitting same to London for discount.

To determine the value of a sixty-day sight draft, drawn upon a merchant, documents on payment, covering non-perishable goods:

EXAMPLE V.

Basis: £100 = \$485.

Discount to be deducted by the discount house on sixty-day draft of American banker on its bank, issued against collateral, as above:

Interest, 63 days' at $3\frac{1}{2}\%$ per annum,	-	-	\$2.91
Commission of London banker,	-	$1/40\%$,	.12
English stamp duty on Class B bill,	-	$1/20\%$,	.24
English stamp duty on American banker's sixty-day bill,	-	-	-
	-	$1/20\%$,	.24
Margin of profit, $\frac{1}{4}$ cent per pound,		$1/20\%$,	.24
Total charges, per £100,	-	-	<u>\$3.75</u>

or, per pound, $.03\frac{3}{4}$.

Price American banker can sell his demand draft for, 4.88

Less charges as above, - - - - - .03 $\frac{3}{4}$

Price he can pay, - - - - - \$4.84 $\frac{1}{4}$

By reverting to Example IV, covering the value of a documentary payment bill of Class A, it will be found that the value of same was \$4.84 $\frac{7}{8}$ per pound, while from the operation above the value of a bill in Class B is \$4.84 $\frac{1}{4}$, or $\frac{5}{8}$ cent per pound less.

The difference in value is, it will be seen, due to the extra English stamp duty on the bill of the American banker, .24 and the difference of interest for 60 days between

the private discount rate of $3\frac{1}{2}\%$,	-	-	\$2.91
and the retirement rate of discount, 3% ,			<u>2.52</u>
			.39
or $5\frac{1}{8}\%$,	-	-	<u>.63</u>

Of course there will be times when interest rates in this Country are very low, owing to an abundance of money, and local banks will be very glad to avail themselves of an opportunity to make sixty-day time loans at three per cent., or whatever the retirement rate may be, rather than permit their surplus funds to remain idle, or earning a lower rate of interest; especially so, in view of the fact, that these loans, if made by the purchase of Class B bills, are practically **demand** loans, inasmuch as payment can be called at a moment's notice, by the issuance merely by such banks of their **own** time paper against the hypothecation of Class B bills as collateral, as previously described.

So that, while ordinarily, Class B bills should be purchased at approximately five-eighths cent per pound, Sterling, under the rate for Class A bills, conditions and circumstances may prevail, which might make the bills secured by the non-perishable goods attractive at a price on a parity with the bills secured by perishable goods, and then no discrimination between them should be made.

All the calculations illustrated in this Chapter, with respect to the value of foreign bills of exchange, are based on bills drawn upon London; and bills drawn upon cities in England, outside of London, are subject to a collection charge of about one-eighth cent per pound, Sterling, and the charge for collecting bills drawn upon cities in Scotland and Ireland is about one-quarter cent per pound, Sterling. These exchange charges are, however, not fixed, and the banker purchasing bills of this nature should base his calculations upon the terms and facilities offered him by his London correspondents for handling such business.

If, however, these bills drawn on cities outside of London have the phrase **Payable in London**, or **Payable with London Exchange**, incorporated in the body of the bills, they are exempt from all extra exchange charges because the drawees are required to pay the bills with exchange on London.

In computing the purchase price for the foregoing various bills of exchange, in all cases, a margin has been allowed of one-quarter cent per pound, Sterling, as profit, representing only a purely nominal and not an actual profit; and was fixed to establish the relative value of the different kinds of foreign bills of exchange were all purchased upon the same percentage of marginal profit.

For obvious reasons, the percentage of profit on a bill issued by a small exporter and rarely in the market would be much larger than on a bill drawn by a large concern and in the market every day, and it is proper that it should be so, because the aggregate profit on bills purchased from a large concern would be greater than the profit derived through the purchase of bills from a small concern, owing to the much larger amount of business acquired from the heavy exporter.

A merchant, buying goods in large quantities from day to day, can always buy on more favorable terms and at a better price than the merchant buying small quantities occasionally; for the same reason, an exporter, making daily shipments in large quantities, can demand a higher price for his bills of exchange than the seller who only ships occasionally, in small lots.

It will, therefore, be readily understood that it is absolutely impossible to fix a margin of profit applicable to all bills of exchange, as this item must be determined by the banker in each transaction, according to the various factors and conditions governing individual cases.

CHAPTER XVIII.

THE GERMAN ACCOUNT.

THE German Account is of great magnitude and it follows that of the English Account in importance and volume of business with the American banks, and in many respects is conducted on similar lines of operation.

A business relation established by an American banker with any one of the prominent German banking institutions, practically secures for him a correspondent in every city of importance in the German Empire, by reason of the fact that these German banks have branch offices or agencies called "Filiales" in all of the leading cities of the Empire that work as a unit with the parent house or head office. This system of branch banking has many commendable features, and the recognition and appreciation thereof undoubtedly explains the large number of foreign banking accounts conducted on the books of the principal banks in Germany.

The account of an American banker opened with one of the leading German banks with its central office in Berlin would be tantamount to his entering upon business relations with all of its branch offices throughout Germany, as the American banker would be authorized by the Berlin office to remit bills of exchange for credit, and issue his checks, upon any of its branches free of commission for **account of the Berlin office**, so that, although the American banker would be in correspondence with all its agencies, his books of account would be confined to the Berlin account. This system of branch banking simplifies clerical work and has in its favor the essential feature of concentration of funds.

In former years, the German banks, conforming to English custom, exacted a commission of usually one-half per mille for conducting the accounts of foreign bankers. The spirit

of competition, so characteristic of the German people, in conjunction with their keen desire to enlarge their business relations on the American continent, was so pronounced, that, step by step, concessions were granted to invite business, and finally resulted in their present policy to accept the accounts of foreign bankers, **free of commission.**

In justice, however, to the English financiers, who have not yet adopted the method of the German bankers in this respect, it should be said that the usages of the Fatherland as pertaining to banking in Germany, afford the German banker many opportunities to secure a remuneration for his services, that the English banker must forego; so it is reasonable to believe that the compensation of the German banking-houses is no less than that charged by the English banking institutions.

The interest account is a source from which the German banker's profit is derived; to explain:

All checks issued by the American bank upon its German correspondent are immediately charged to its account upon the receipt of the appertaining advice, instead of upon payment of check as in London.

Since it frequently happens that checks are not promptly presented for payment but remain in circulation, the interest on the amount of checks outstanding is a profit to the German banker. The interest or discount, deducted from all time bills of exchange remitted for credit, is another source of great profit to the German bank.

Cash items and remittances are credited to the account "value"—by value is meant the date from which interest is credited or debited—the day **following** the date of actual payment, instead of "value" the date of payment as in London.

"Arbitrage Transactions," fully explained in Chapter XXVI, devoted to this branch of foreign exchange banking, afford another means of revenue for the German banking-house, and its other resources for gains will be touched upon later; thus it will be seen, that, although no commission is charged, nevertheless, the German banker receives compensation for his services.

To proceed to illustrate the practical operation of the German Account and in so doing following the same line of procedure as in the English Account, and further to ascertain what prices the American banker can afford to pay for the various kinds of foreign bills of exchange drawn upon Germany, and assuming that the American banker has established a connection with one of the prëminent German banks previously referred to, on these terms and conditions:

Account current conducted	Free of charge;
Interest allowed on American cash credit balances,	{ According to money market, generally 2% under bank rate;
Interest charged on American cash overdrafts,	{ According to money market, generally 1% above bank rate;

Postage and cost of cablegrams to be debited to the account.

To establish a fundamental basis of calculation, assume further that the discount rates in Germany, and the price that the American banker can realize in New York City for his checks are as hereinbelow stated, and include also a compliance with the German laws relating to bill-stamp duties, as follows:

Checks drawn against cash } funds in the hands of the } drawee for account of drawer, }	Exempt from stamp duty;
Letters of Delegation drawn at } sight or three days' sight, }	Exempt from stamp duty;
Three-day sight, and other time } drafts, approximately, }	$\frac{1}{2}\%$;
Imperial German Reichsbank } discount rate per annum, }	4%;
Private or open market rate of } discount, per annum, }	$3\frac{1}{4}\%$;
Price American banker can real- } ize for checks on Germany, }	95½ cents.

The quotation of 95.5 cents is the price that the American bank can obtain for every four marks—the customary manner to quote exchange rates for marks.

What price shall be paid for a ninety-day sight draft on German bankers, or prime merchants, documents against acceptance:

EXAMPLE I.

Basis of calculation, M. 400 at 94 cents = \$94. This is in conformity with conventional custom, tables having been compiled on this basis.

Discount to be deducted by the German correspondent, 90 days' interest at $3\frac{1}{4}\%$, private discount rate,	-	-	.77
German bill stamp,	-	-	$\frac{1}{2}\%$, .05
Margin of profit for American bank,	-	$\frac{1}{2}\%$, .05	
Total charges,	-	-	<u>.87</u>

or, say, $\frac{7}{8}\%$; the rate for marks being so nearly one hundred cents that for all practical purposes, bankers always figure the charges in marks, as per one hundred or per cent.

If the American bank can sell its mark check for \$95.50
 and the charges on a ninety-day draft are as above, - .87
 he can pay the difference, or say, - - - - 94.63
 for a ninety-day sight draft, equal to 94 $\frac{5}{8}$.

The private discount rate, 3 $\frac{1}{4}$ %, was figured on the above bill. Documentary bills, with documents deliverable on acceptance of the drawees, are discounted, upon receipt by the German banker, at the open market or private discount rate, conforming to the practice of the English banker.

As the rate fluctuates from day to day according to the monetary conditions, it would be advisable for the American banker to make the same arrangements with his German banker that were entered into with his London correspondent, to-wit: to have him wire the American bank every day the private rate of discount at which the German banker will contract to discount bills from his American correspondent "to arrive," so as to enable the American banker to make his daily purchases on this basis, and secure his profit by accepting the discount rate for the aggregate amount of his daily transactions.

If the American banking-house does not pursue this course, the manager of its Foreign Department may buy bills on the basis of three and one-quarter per cent. discount, that, owing to an advance of the discount rate during transit, may be discounted at three and three-quarters per cent. upon arrival, and instead of a **profit**, the Foreign Department will have made a **loss** on its business.

What price to pay for a sixty-day sight draft on a German merchant, documents against payment:

EXAMPLE II.

Basis of calculation, M. 400 at 94 cents, = \$94.	
Discount to be deducted by German banker,	
60 days' interest at, Reichsbank discount rate, 4%,	.63
German bill stamp, - - - - - $\frac{1}{2}\text{‰}$,	.05
Margin of profit for American bank, - $\frac{1}{2}\text{‰}$,	.05
Total charges, approximately, $\frac{3}{4}\%$, -	.73
From the price for mark checks of - - - - -	\$95.50
deduct the charges of - - - - -	.75
the difference is the price for a sixty-day sight	
documentary payment bill, to wit: $94\frac{3}{4}$, or - -	94.75

Although the above was a documentary **payment** bill, the same will be discounted **upon receipt** by the German banker, whereas the **London banker does not discount bills of this type**. The German banker discounts payment documentary bills at the Reichsbank discount rate, which is usually one-quarter to one per cent. higher than the open market or private rate; the private discount rate is not applied by the German banker on such bills.

The reason for so doing is because the German banker can not re-discount the bills and must hold them in his portfolio until maturity, or their retirement by the drawees prior to maturity, who then are allowed rebate for the unexpired time to maturity, at the Reichsbank's discount rate.

Documentary payment bills **on Germany** are usually retired by drawees **within a short time** after their acceptance, so that the banker, in reality, makes a short loan, according to the period of time that the bill is held in his portfolio, with prime collateral security, represented by documents attached to draft, at the Reichsbank minimum rate.

Were the above bill drawn upon bankers or upon prime merchants with instructions to surrender appertaining documents against drawee's acceptance, it would have been discounted at three and one-quarter per cent., the private rate, instead of four per cent., the Reichsbank rate, the other charges would have been the same, so that we could have paid the difference between the

sixty days' interest at	-	-	-	-	4%,	.63
and the sixty days' interest at	-	-	-	-	3¼%,	.51
or ⅜%, that is	-	-	-	-	-	.12

more than for a documentary payment bill, and worth \$94.78

What price shall be paid for a thirty-day sight draft on a German banker or prime merchant, documents on acceptance:

EXAMPLE III.

Basis of calculation, M. 400 at 94 cents=\$94.

Discount to be charged by German banker,

30 days' interest at private rate,	-	3¼%,	.26
German bill stamp,	-	½°/∞,	.05
Margin of profit for American bank,	-	½°/∞,	.05
Total charges, approximately,	-	3⅞%,	.36

Since the mark checks sell at	-	-	-	\$95.50
and deducting the above charges of	-	3⅞%,	.375	
The difference is the value of a thirty-day draft,				\$95.125

Were the above a documentary payment bill, interest at four per cent., the Reichsbank rate, would have been deducted, and would then have paid correspondingly less.

What price to pay for a ten-day sight draft on a merchant in Germany, documents on payment:

EXAMPLE IV.

Basis of calculation, M. 400 at 94 cents = \$94.

Discount to be deducted by German banker,

10 days' interest at Reichsbank rate, - 4%,	.09
German bill stamp, - - - - $\frac{1}{2}^{\circ}/_{\infty}$,	.05
Margin of profit for American bank, - $\frac{1}{2}^{\circ}/_{\infty}$,	.05
Total charges, - - - - -	<u>.19</u>

Price American bank can realize for its checks, - \$95.50

Less charges as above, - - - - - .19

or, 95 $\frac{5}{16}$, value of a ten-day sight payment bill, 95.31

What is the value of a three-day sight draft on a German merchant, documents against payment:

EXAMPLE V.

Basis of calculation, M. 400 at 94 cents = \$94.

Discount to be deducted by German banker,

3 days' interest at Reichsbank rate, - 4%,	.025
German bill stamp, - - - - $\frac{1}{2}^{\circ}/_{\infty}$,	.05
American banker's margin of profit, - - $\frac{1}{2}^{\circ}/_{\infty}$,	.05
Total charges, - - - - -	<u>.125</u>

Price American banker can sell his check for, - \$95.50

Less charges as above, - - - - - .125

or, 95 $\frac{3}{8}$, price he can pay for above bill, - - 95.375

For a three-day sight **Letter of Delegation** on a German merchant, the American bank could afford to pay one-half per mille, more, than for a three-day sight draft, for the reason that there is no charge for German bill stamp on Letters of Delegation, thereby increasing their value one-half per mille.

Of course, in **actual business** operations, the rate for **fraction of values** for marks, are **accurately** expressed, as, for instance, the rate of

94.72 would be expressed as $94\frac{3}{4}$ less $1/32\%$;
 94.78 would be expressed as $94\frac{3}{4}$ plus $1/32\%$;
 95.265 would be expressed as $95\frac{1}{4}$ plus $1/64\%$;
 95.235 would be expressed as $95\frac{1}{4}$ less $1/64\%$; etc.

In the preceding examples, the writer did not, however, carry out the exact fractions in this manner, as it was the **underlying principle employed**, applicable to determine the value of bills, that he desired to impress more upon the mind than the exact figures, such exact figuring being a simple mathematical problem.

The description of the diversified types of bills of exchange have not been given extended treatment since all these details were fully outlined in the preceding Chapter XVII, devoted to the English Account. Since the foreign documentary bills of exchange on the different countries are exactly alike, and are treated in the same manner, what applies to documentary bills on England, is also true with respect to bills on the other foreign countries, **with the one exception**, that, while **documentary payment bills** can not be forwarded to the London correspondent for credit to the account of the American bank, **under discount**, continental bankers **will** place these bills to his credit, under discount.

If the foreign bills of exchange, forwarded for collection and credit are drawn at sight, or three days' sight, in Germany where the Berlin banker has "Filiales" or branches, such bills may be sent direct to the branch offices, under simultaneous advice to the Berlin correspondent of the American bank, and the Berlin bank will credit such bills to the account of the American bank free of commission.

Bills at sight, or three days' sight, drawn upon the smaller German cities where no branch offices are located, should be sent to the Berlin correspondent, unless he has authorized the American bank to send such paper direct to his correspondents for his account, but in all cases, the bills will be subject to a collection charge of from one-half to one per mille, or more, according to agreement, and should be purchased by the American bank on this basis.

Bills drawn at thirty, sixty, and ninety days' sight with documents attached, to be surrendered upon **payment**, should be treated in like manner. If, however, the bills are issued at thirty, sixty, or ninety days' sight, with documents attached, deliverable against the acceptance of drawees, then the "**First**" or **Original of Exchange** should be forwarded direct, in like manner, but, instead of for credit, for the account of the Berlin correspondent, instructing the banker to whom the bills are sent to obtain acceptance of respective "**Firsts**," and then forward the bills to the Berlin correspondent for account of the American bank.

It is not customary to endorse these "**Firsts of Exchange**" but endorsement by the American banker may be made to the order of his Berlin correspondent to whom duly endorsed "**Seconds of Exchange**" are remitted by the American bank for discount and credit, by following mail.

The reason "**Firsts of Exchange**" are sent direct for acceptance to bankers domiciled in cities, where drawees of respect-

ive bills are located, is **to fix the date of maturity** by acceptance of the bills at the earliest possible moment to save interest.

These bills are, as before stated, discounted at the open or private rate of discount, and instead of charging a commission for collecting these bills, as in the case of sight, or three-day sight drafts, the Berlin correspondent does the following:

If the bill of exchange is drawn for an amount of M. 10,000, or in excess thereof, **the last five days of the bill** are discounted at Reichsbank rate, instead of at private discount rate; and if drawn for an amount of less than M. 10,000, **the last ten days of the life of the bill** are discounted at the Reichsbank rate, instead of at the private discount rate.

In other words, a ninety-day sight draft of M. 10,000, or above, would be discounted as follows: eighty-five days at private rate and five days at Reichsbank rate, etc. Since the private rate of discount is always less than the Reichsbank rate, the difference between these two rates represents the collection charges.

The foregoing applies to drafts drawn upon cities where "Filiales" or branch offices of the Berlin correspondent are located, as well as on cities where no branch offices exist, unless arrangements to the contrary have been entered into with the Berlin correspondent of the American bank.

Bills of the foregoing nature are usually lodged by the Berlin correspondent with the Reichsbank for collection, on the aforesaid terms.

If, however, the aggregate amount of bills lodged with the Reichsbank for collection, amount to M. 20,000 and are comprised of bills **exceeding M. 5000, maturing on the same day,**

then the Reichsbank only deducts five days' interest at its bank rate, the same as for bills of M. 10,000, or more, instead of ten days.

It is difficult to always economize collection charges in this way, and the American banker is generally charged ten days' interest at bank rate, for bills between M. 5000 and M. 10,000 by the Berlin correspondent, while such correspondent has no difficulty, owing to the volume of his business, to conform to the above requirements, thereby profiting by the operation.

CHAPTER XIX.

THE FRENCH ACCOUNT.

THE French Account consists of a chain or series of banks having a central office in Paris, and branch banks located throughout the Republic; the head or central banking-house is, of course, of National importance. The system of the French Account resembles that of the German plan of central and branch banking, and both are conducted on parallel lines of operation.

The leading French banking institutions have branch offices throughout France, and an account opened with the main office in Paris with one of these institutions gives the American banker the same facilities with respect to the transaction of his business with the French Republic, that an account in Berlin with regard to his international exchanges with the German Empire secures.

Drafts may be drawn upon, and bills of exchange remitted by the American banker for credit to Marseilles, Havre, Bordeaux, and other French cities for account of the Paris office.

The account of the American banker is inscribed on the books of the principal office, and all transactions of the American banking-house with the various branch offices scattered from Paris toward the borders of the French Republic are advised to the home office, so as to enable the parent bank in the Capital to make the requisite and complete entries thereof.

In the matter of details, the French Account proceeds in exactly the same channels as that of the German Account, Chapter XVIII, and reference thereto is made for such detailed information.

The rate of commission exacted by French bankers for carrying the accounts of American banks ranges from one-fortieth to one-sixteenth per cent. on all items passing through the account, the rate being determined by the volume of business.

Assuming that an account has been opened with one of the prominent French banking institutions in Paris, having branch offices at Marseilles, Havre, Bordeaux, including other cities within the Republic of France, and furthermore, taking into consideration the French banking laws with respect to bill-stamp revenues, the present task will be to ascertain the prices that can be paid for the various types of bills of exchange drawn upon France, based upon the annexed terms and conditions, to-wit:

Bank of France, minimum discount rate,	3% per annum;
Private or open market discount rate,	2¾% per annum;
Commission charged by French correspondent, - - - -	1/40%;
Cheques drawn against cash funds in the hands of the drawee for account of drawer, - - - - -	} Exempt from stamp duty;
Three-day sight, and other time drafts,	
Interest allowed on credit balances,	{ According to money market, usually 2% under Bank rate;
Interest charged on cash overdrafts,	
Price at which Paris cheques can be sold in New York market, - - -	5.15.

Postage, cablegrams and petty expenses to be charged to the account of the American bank.

This quotation of 5.15 signifies: that each dollar will purchase 5 francs and 15 centimes, or 5 and 15/100 francs; that being the customary manner to quote the rate for French exchange.

The method of quoting French exchange, to those unfamiliar with the subject, is very puzzling, and unless thoroughly understood is apt to result in endless confusion. It is therefore necessary to analyze such method carefully.

Thoroughly fix in mind that the higher the rate the lower the quotation.

For example: the rate of 5.15 is lower than the rate of 5.12½; to explain, as previously stated, the rate signifies the amount of francs and fraction of a franc that each dollar will purchase, therefore, the rate of 5.15—meaning that for each dollar 5 francs and 15 centimes will be exchanged—is lower than the price of 5.12½, because the purchase of francs at that rate is less, to-wit: 5 francs and 12½ centimes.

In commercial transactions, French exchange is quoted in fractions of ⅛%, or ⅝ centime, and is based on the approximate quotation of, say, 5 francs to the dollar.

To illustrate: the quotations read thus: 5.15, 5.15⅝, 5.16¼, 5.16⅞, 5.17½, 5.18⅛, 5.18¾, ranging from, say, 5.00 to 5.35.

The progression is arrived at in the manner following: take for example, the quotation of 5.15, the next lower quotation of approximately, ⅛%, ⅝ centime, is 5.15⅝, found by adding ⅛% of 5.00, say, .00625, to 5.15, the sum is 5.15625, and is expressed 5.15⅝.

It frequently occurs, however, that closer quotations are required in business transactions than can be expressed by the fraction of the ⅛%, ⅝ centime, and to meet these requirements the terms: plus 1/16, plus 1/32, plus 1/64, or less 1/16, less 1/32, less 1/64, etc., are employed.

All these fractional quotations signify **per cent.** and are, therefore, computed on the **dollar amount** and not on the franc quotation.

For example: the rate of $5.15\frac{5}{8}$ less $1/16\%$ would be practically equivalent to the quotation of $5.16\frac{1}{4}$ plus $1/16\%$, and is illustrated in the subsequent examples:

Find the cost of a Paris cheque for 5000 francs at the rate of $5.15\frac{5}{8}$ less $1/16\%$:

PROCESS:

5.15625)5000.00000(969.69		\$969.69
4640 625		Less $1/16\%$, <u>.60</u>
359 3750		\$969.09
309 3750	.0016)9.6969(.60	
50 00000	<u>9 6</u>	
46 40625	969	
3 593750		

Find the cost of a Paris cheque for 5000 francs at the rate of $5.16\frac{1}{4}$ plus $1/16\%$:

PROCESS:

5.1625)5000.00000(968.52		\$968.52
4646 25		Plus $1/16\%$, <u>.60</u>
3537 50		\$969.12
3097 50	.0016)9.6852(.60	
440 000	<u>9 6</u>	
413 000	852	
27 0000		
25 8125		
1 18750		
1 03250		

From the foregoing operations, observation will show that there is only a difference of three cents between the cost of a francs 5000 Paris cheque at the rate of $5.15\frac{5}{8}$ less $1/16\%$ as compared with the cost at the rate of $5.16\frac{1}{4}$ plus $1/16\%$; and the rates, although differently expressed, are practically identical. 10

What price shall be paid for a ninety-day sight draft on French bankers, or prime merchants, documents against acceptance:

EXAMPLE I.

Basis of calculation, 525 francs for each \$100. This is in conformity with commercial usage; tables on this basis have been compiled and are in general use.

Discount to be deducted by French correspondent,	FRANCS.
90 days' interest at private discount rate, $2\frac{3}{4}\%$,	3.60
Commission charged to account by	
correspondent, - - - - - $1/40\%$,	.13
French bill stamp duty, - - - - - $1/20\%$,	.26
Margin of profit for American bank, - - - $1/20\%$,	.26
Total charges in francs, - - - - -	4.25
To be deducted from, by adding to, the rate of -	515.
	<hr/> 519.25

the rate that can be paid for a ninety-day bill, or approximately $519\frac{3}{8}$ plus $1/32\%$.

Documentary acceptance bills are treated by the French correspondent in like manner as the English and German correspondents treat such bills remitted to them, and are placed to the credit of the account of the American bank upon receipt, under discount, unless specifically instructed otherwise.

What price to pay for a sixty-day sight draft on a merchant in France, documents against payment:

EXAMPLE II.

Basis of calculation, 525 francs = \$100.	
Discount to be deducted by French banker, or rebated to drawee if paid upon presentation, 60 days' interest at Bank of France rate, 3%,	FRANCS. 2.62
Account current commission, - - - 1/40%,	.13
French bill stamp duty, - - - 1/20‰,	.26
Margin of profit for American bank, - - 1/20‰,	.26
Total charges in francs, - - -	3.27
To be deducted from, by adding to, the rate of -	515.
	518.27

gives the quotation of, approximately, $518\frac{1}{8}$, less $1\frac{1}{32}\%$.

The bill, if not placed to the credit of the account of the American bank upon receipt, under discount, by the French correspondent, and if not paid by drawee, under rebate, upon original presentation, would be earning accrued interest to the credit of the American bank for the time such bill is held in portfolio by the French banker, at the rate of three per cent. per annum, and drawee would only be entitled to rebate of interest at Bank rate for the unexpired time from date of payment, or retirement, to date of maturity.

What price shall be paid for a thirty-day sight draft on a French merchant, documents on payment:

EXAMPLE III.

Basis of calculation, 525 francs = \$100.

Discount to be deducted by French banker, or
rebated to drawee if paid on presentation,

	FRANCS.
30 days' interest at Bank rate, - - - 3%,	1.31
Account current commission, - - - 1/40%,	.13
French bill stamp, - - - 1/20%,	.26
Margin of profit for American bank, - - 1/20%,	.26
Total charges in francs, - - -	1.96
To be deducted from, by adding to, the rate of -	515.

516.96

gives the quotation of, or the price to pay, 516.7/8, less 1/64%.

What price can be paid for a three-day sight draft on Paris, documents to be surrendered on payment:

EXAMPLE IV.

Basis of calculation, 525 francs = \$100.

Interest to be deducted by French correspond-

	FRANCS.
ent, Bank of France rate, 3 days' at - 3%,	.13
French bill stamp, - - - 1/20%,	.26
Account current commission, - - - 1/40%,	.13
Margin of profit to American bank, - - 1/20%,	.26
Total charges in francs, - - -	.78
To be deducted from, by adding to, the rate of -	515.

515.78

gives the price which can be paid for above draft of 515 5/8, less 1/32%.

All cheques drawn upon the Paris office and its branches are debited to the account of the American bank upon receipt of appertaining advices, so that the interest, accruing on the amount of cheques not promptly presented to the drawees for payment, is a source of revenue to the benefit of the French correspondent in Paris.

In conducting this account, care should be taken to avoid cash overdrafts which are expensive, the difference between the rate of interest bonified on credit balances and the rate of interest charged on debit balances being, as a rule, greater in this than any other European account.

Another peculiar feature, requiring especial mention, is, that the French correspondents, unlike other European bankers, ordinarily charge an extra commission for executing telegraphic transfer payments to firms or individuals not classified as bankers.

Some American bankers, not having a sufficient patronage with Belgium, Switzerland, and Italy to make it necessary to open accounts with the respective bankers therein, pass all transactions pertaining to these countries through the Paris account.

When these transactions are cleared through Paris as the central office, the custom is to obtain from the banking-house in Paris the names of its correspondents in the several foreign cities in Belgium, Switzerland, and Italy, and to forward to them the American remittances and issue checks direct under simultaneous advice to the central bank in the City of Paris.

As rate of exchange between France and these respective countries rarely is quoted at par, the discount or premium is adjusted by the French correspondent and entries are booked to conform thereto.

Thus it will be seen from the foregoing facts, that, if the American bank transacts its business with Belgium, Switzerland, and Italy, through the intermediate French Account, the manager of The Foreign Department of the American bank should obtain from his Parisian bank, quotations for exchange in the Capital of the Republic, on these different countries, **to enable him to negotiate business of this nature without loss.**

CHAPTER XX.

HOLLAND, BELGIUM, AND SUNDRY FOREIGN ACCOUNTS. RUSSIA.

THE subject-matter of this Chapter presents the business inter-relations created by the accounts of American banks with the respective bankers of Holland, Belgium, Austria, Switzerland, Italy, Denmark, Sweden and Norway.

That the American foreign trade with these countries is not as extensive as that with England and Germany, as a matter of course, is admitted, still those conversant with such international interests know that American exports to Holland and Belgium assume very large proportions.

Austria, Switzerland, and Italy contain a number of prominent banking-houses engaged in the system of branch banking, corresponding to that in England, Germany, and France; and relations entered into with any one of these institutions in the respective country secures for the American bank like banking facilities, both with the central and branch banks, for the execution of all transactions of the American bank in the respective country.

The fundamental principles of the banking profession are substantially identical throughout Europe so far as the international accounts with American banks are concerned, and the presentations of details in the preceding European accounts apply with equal force, in consequence, to the accounts discussed in the present Chapter.

European bankers are very aggressive, and their competition for the acquisition of accounts of foreign banks is very keen, resulting favorably for the establishment of American relations with the bankers of Europe at the present time upon much more favorable terms, than was possible a few years ago.

In fact, in many instances, no commission is charged for opening accounts, and such waiver is offset by the profits derived through the sale of foreign exchange to the American banker, that is to say, remittances to other countries for his account, the discounting of bills remitted by him for credit, and the interest account, all afford a sufficient compensation for services.

When the account is kept "franco commission," such concession is usually partly recovered by allowing a **lower** rate of interest on **credit** balances, and charging a **higher** rate on **overdrafts**, than when the account is subject to commission.

The interest account is adjusted according to the monetary condition obtaining in the respective countries. While the conditions, with respect to the interest account, vary in the different countries, and is a matter of negotiation, the usual terms are as follows:

Interest on credit balances, 1% below official Bank rate;*

Interest on debit balances, 1% above official Bank rate.*

The respective operations appertaining to the several accounts mentioned in this Chapter follow.

The Holland Account.

The Holland Account is the most important, and the larger portion of bills of exchange on Holland are drawn on Rotterdam and Amsterdam. An account, opened with a banking institution in either city, would enable the American bank to remit bills and issue checks on the other Dutch city, for the reason, that the Rotterdam correspondent has an account in Amsterdam, and the Amsterdam correspondent with like facilities in conjunction with the Rotterdam bank will courteously reciprocate.

* Of the respective countries.

Dutch Terms and Conditions.

Bills of exchange remitted to the Dutch correspondent for collection and credit are treated by him in exactly the same manner that the German banker clears bills sent by the American banker for that purpose.

A general basis for establishing and calculating the prices to pay for the different kinds of bills of exchange drawn upon Holland assumes the discount rates in Holland and the price that American checks can be sold on Holland are as follows, including further the account current commission and full observance of the Laws of Holland relative to the subjoined bill stamp duties:

Bank of the Netherlands discount rate, $3\frac{1}{2}\%$ per annum;

Open or private rate of discount, - 3% per annum;

Checks, and three-day sight drafts,

bill stamp duties, - florin, .05 on each draft,
irrespective of amount,

All other time drafts, - - - $\frac{1}{2} \text{ ‰}$;

Account current commission, - $\frac{1}{4} \text{ ‰}$;

Price obtainable in New York for

checks on Holland, - - $40\frac{1}{4}$ cents per florin.

The monetary unit of Holland is the florin, guilder or gulden, and one florin equals 100 cents.

What price to pay for a sixty-day sight draft on Dutch bankers, or prime merchants, documents against acceptance:

EXAMPLE I.

In computing interest, the American value of a florin is, approximately, 40 cents; hence the

Basis of calculation will be 100 florins=\$40.

Discount to be deducted by Holland

banker, at private or open market

rate, 60 days' interest, - - - 3% per annum, .20

Dutch bill stamp, - - - $\frac{1}{2}^{\circ}/_{\infty}$, .02

Margin of profit for American bank, $\frac{1}{2}^{\circ}/_{\infty}$, .02

Commission charged American

account by Holland banker, - $\frac{1}{4}^{\circ}/_{\infty}$, .01

Making the total charges thereon of .25

and deducting from 40.25, $40\frac{1}{4}$, the selling price of American checks in New York City, gives the rate of 40 cents, the price the American banker can afford to pay for the above bill.

To find the price for a sixty-day sight draft, on a merchant, documents against payment:

EXAMPLE II.

Basis of calculation, 100 florins = \$40.

Discount to be deducted by Holland

correspondent, interest at Bank

rate, 60 days, at - - - - $3\frac{1}{2}\%$ per annum, .24

Dutch bill stamp, - - - - $\frac{1}{2}^{\circ}/_{\infty}$, .02

Commission charged by Holland bank, $\frac{1}{4}^{\circ}/_{\infty}$, .01

Margin of profit for American bank, $\frac{1}{2}^{\circ}/_{\infty}$, .02

Total charges, - - - - .29

and subtracting from the quotation of 40.25, price for checks, gives the rate of 39.96, or, approximately, 39 $\frac{15}{16}$ plus $\frac{1}{16}$ per cent., the value of the above-described bill.

What price to pay for a thirty-day sight draft on a Dutch banker, or prime merchant, documents against acceptance:

EXAMPLE III.

Basis of calculation, 100 florins = \$40.

Discount to be deducted by Holland

banker, interest at private rate,

30 days, at - - - - 3% per annum, .10

Dutch bill stamp, - - - - $\frac{1}{2}^{\circ}/_{\infty}$, .02

Commission in account current, - $\frac{1}{4}^{\circ}/_{\infty}$, .01

American banker's margin of profit, $\frac{1}{2}^{\circ}/_{\infty}$, .02

Total charges, - - - - .15

and deducting from 40.25, the price for Holland checks in New York City, gives the quotation of 40.10, expressed $40\frac{1}{8}$ less $\frac{1}{16}$ per cent., the value of the above bill.

To find the value of a thirty-day sight draft drawn upon a merchant in Holland, documents against payment:

EXAMPLE IV.

Basis of calculation, 100 florins = \$40.

Discount to be deducted by Holland
banker, interest at Bank rate,

30 days, at	- - -	$3\frac{1}{2}\%$ per annum,	.12
Dutch bill stamp,	- - -	$\frac{1}{2}^{\circ}/_{\infty}$,	.02
Commission on account current,	- - -	$\frac{1}{4}^{\circ}/_{\infty}$,	.01
Margin of American profit, -	- -	$\frac{1}{2}^{\circ}/_{\infty}$,	.02
Total charges,	- - -	- - -	<u>.17</u>

and deducting from 40.25, the rate for checks on Holland, gives the rate of 40.08, expressed 40 $\frac{1}{16}$ plus $\frac{1}{16}$ per cent., the price of the above bill.

What price to pay for a three-day sight draft on Holland merchant, or banker, documents against payment or acceptance:

EXAMPLE V.

Basis of calculation, 100 florins = \$40.

Discount to be deducted by Holland
banker, or proceeds of bill credited value per date of maturity,

3 days' interest at	- - -	$3\frac{1}{2}\%$ per annum,	.02
Commission charged by Holland			
banker, - - - - -	-	$\frac{1}{4}^{\circ}/_{\infty}$,	.01
Margin of profit to American banker,	-	$\frac{1}{2}^{\circ}/_{\infty}$,	.02
Bill stamp, 5 cents in Dutch money,			
too small to include, - - -	-	-	.00
Total charges,	- - -	- - -	<u>.05</u>

and deducted from 40.25, the price for checks, gives the rate of 40.20, expressed 40 $\frac{3}{16}$ plus $\frac{1}{16}$ per cent., the price to pay for above draft.

Examination of the preceding examples will disclose that the values of the various types of bills of exchange were based upon the price for which checks could be sold to bankers in New York City.

The American exports to exceed the imports from Holland, thus creating large credit balances in favor of American banks on the books of account of their Dutch correspondents. These credit balances are transferred by the purchase in **Holland** of London checks to the credit of the American banks on the ledger folios of their London correspondents, so that, virtually, the purchase of bills drawn upon Holland is equivalent to the purchase of pounds, Sterling, and the purchase of Dutch bills is based upon the cost of pounds, Sterling, laid down in the City of London.

It will be readily understood from the foregoing statement that the cost of converting Dutch florins into English pounds, Sterling, must be taken into consideration, and to determine such cost daily telegraphic quotations covering the price of London checks in the Holland market, for prompt remittance and delivery within fifteen days, are received by American banks from their correspondent in Holland.

The triangular operation of remitting funds from the United States to England through the circuitous, or indirect, offices of **Holland**, referred to in the preceding paragraphs, describes what is termed an **Arbitrage Transaction**, and Chapter XXVI will be devoted to the very important international clearings of, and international dealings in, bills of exchange, under the title of "Arbitrage Transactions."

The Belgian Account.

The monetary unit of Belgium, with its one hundred centimes, is the franc, the same as that of France; and the money value of both countries being identical, it follows that quotations for bills of exchange on Belgium are expressed in like manner as bills of exchange on the Republic of France.

The Belgian Account is opened usually with bankers at Antwerp, and there all bills drawn upon Belgium are remitted for collection and credit. Of course, bills on Brussels, Ghent, and other cities therein may be sent direct to the correspondents of the Antwerp bank in those centres for its account. Belgium is a comparatively small country, and American arrangements with one of its series of banks do not reach the same importance that such banking ties with other European states of greater area command.

The price for checks on Antwerp is quoted daily by New York City financiers, and such quotations are based upon the price for checks on Paris, or the cost of pounds, Sterling, remitted to London, *via* Antwerp, by the purchase in Antwerp of checks on Paris and/or London. Such clearings more properly come under the head of "Arbitrage Transactions," and the operation mentioned will be presented in the Chapter bearing that name. For the present, the purchase of bills on Belgium based upon the price of checks on Paris will first receive attention.

The American banker will arrange with his Antwerp correspondent for daily or semi-weekly telegraphic quotations, covering the prices for checks on London, checks on Paris, and the private or open market discount rate. These quotations serve only as a guide, for the reason that the bankers in Belgium as a rule, unlike other European banking-houses, refuse to make quotations for foreign exchange deliverable

within, say, fifteen days; consequently the American bank can not protect itself, by contract, against possible loss in exchange, during transit of bills. To this extent, business with bankers in Belgium is speculative in the smallest degree, since their transactions are limited, and any loss occasioned in one instance by an advance in Belgium for foreign exchange is generally offset in another instance by a decline.

Belgian Terms and Conditions.

Assume relations with an Antwerp banker have been consummated, and that the current quotations are as herein-after expressed, including the expense for bill stamp duties:

Bank of Belgium discount rate, - -	3½% per annum;
Private or open market discount rate,	3% per annum;
Commission charged in Antwerp account,	1/40%;
Commission charged in Paris account, -	1/40%;
Bill stamp duty for 3 days' sight, and other time bills of exchange, - -	1/20%;
Checks drawn against cash funds in the possession of drawee for the account of drawer, - -	} Exempt from stamp duty;
Checks on Paris in Antwerp, selling at	
	1/8% premium;
Interest allowed on credit balances, -	{ According to money market, usually 1% below Bank rate;
Interest charged on debit balances, -	
	{ According to money market, ½ to 1% above Bank rate;
Price at which checks on Paris can be sold, 5.15.	

Price Sixty-day Sight Drafts on Antwerp.

What price shall be paid for a sixty-day sight draft on a merchant in Antwerp, documents to be surrendered on payment:

EXAMPLE I.

Basis of calculation, 525 francs=\$100.

Discount to be deducted by Antwerp bank,

60 days' interest at $3\frac{1}{2}\%$ per annum,	FRANCS.
Bank rate, - - - - -	3.06
Commission in Antwerp account, - - $1/40\%$,	.13
Commission in Paris account, - - $1/40\%$,	.13
Belgian bill stamp, - - - $1/20\%$,	.26
Premium for checks on Paris, - - $1/8\%$,	.66
Margin of profit for American bank, - $1/10\%$,	.51
Total charges in francs, - - - -	4.75

to be deducted from, by adding to, the quotation of 5.15, the price for checks on Paris, gives the rate of 5.1975, expressed, approximately, $5.19\frac{3}{8}$ less $1/16\%$, the price that can be paid for the above bill.

Belgian Bills.

The preceding example discloses that bills of exchange on Belgium are purchased on the same basic principles that bills drawn upon France are, with the exception that the factors of premium or discount for checks on Paris in Antwerp, and that two account commissions, instead of one, have to be allowed for, to ascertain the total charges on Belgian bills; provided, of course, such bills are bought on the basis of the remittance of proceeds to the Paris correspondent through the intervening Antwerp account, and checks on Paris issued against such proceeds by the American bank.

Bills on Belgium drawn upon cities outside of Antwerp should include the exchange charges, if any, for their collection, according to the arrangement with the Antwerp correspondent.

The foregoing explanation, in conjunction with Example I, will suffice to determine what prices should be paid by the American bank for the different types of bills of exchange on Belgium, without further illustration by the several examples worked out in the French Account, and there given for reference, if necessary.

In computing the values of the different bills, it will be well to remember that all bills of exchange accompanied by documents to be surrendered to drawees **on acceptance** are discountable at the private or open market discount rate, whereas, **documentary payment bills** are subject to the official Bank rate.

**Austria, Switzerland, Italy, Denmark,
Sweden, and Norway.**

The affairs of a Nation naturally appeal by reason of its power and importance to the minds of all men, and especially so when property rights evidenced by moneys and securities are the subject for earnest consideration. With that thought present, discussion follows of the American international banking relations with Austria, Switzerland, Italy, Denmark, Norway, and Sweden, although the volume of trade and exchange is comparatively light with these countries, and each of them.

For the accommodation of the American bank's clientele, and the general community at large, direct and active association should be established with bankers in those European states, because no foreign department will or can be considered complete without full facilities for the transaction of all business passing through these respective and distinct accounts.

The direct exports from the United States to Austria, Switzerland, Italy, and the Scandinavian countries, are small, with the result that commercial bills of exchange on those territories, especially Austria and Switzerland, are rarely offered to American banks for negotiation. In fact, so few bills are tendered by exporters for sale, that the credit balances on the books of the banking institutions of those nations mentioned, in favor of American banks and required by them for checking purposes, are largely created by remittances of American bankers' checks, drawn in pounds, Sterling, upon their London correspondents, and subsequently converted by the banker to whom remitted for credit into the money of the respective country, at the official current rate of exchange upon receipt.

European Cities Clearing-Houses for American Goods.

Bankers' checks on London are in demand and negotiable throughout the world, and therefore serve as an excellent remittance for cover, the loss of exchange by virtue of conversion being only nominal.

The foregoing remarks should not create the impression that American products are not largely purchased and consumed by the people of the countries referred to. On the contrary, while the **direct exports**, as previously stated, are small, the **indirect exports** from America to these countries assume large proportions.

The large European cities serve as the distributing centres of American goods, and a very large percentage of bills of exchange issued upon mercantile firms on these cities represents merchandise that is re-sold by such persons to the people of the countries previously mentioned. In this manner **London, Berlin, Hamburg, Antwerp, and Rotterdam**, for example, act as clearing-houses for American products.

Within the last few years, the **direct trade relations** of American exporters with merchants in Italy and the Scandinavian countries have increased materially, and it is to be hoped that American exporters will be successful in their efforts to establish similar relations with the merchants of Austria and Switzerland.

The Austrian Account.

Branch banking, as stated in the beginning of this Chapter, is conducted by a number of the leading banking institutions in Austria. Consequently, an account opened by an American bank with any one of these institutions having its parent or head-office domiciled in Vienna would give the American bank correspondents in the cities of Prague, Budapest, Triest, and other Austrian centres, where its branch offices are located.

The comparatively small volume of business passing through this Account necessarily enforces payment of a commission larger than that charged by European bankers with whom larger operations are consummated.

Assume that an account has been opened on the books of a Vienna banker upon the subsequent terms and conditions:

Account current commission, - - $\frac{1}{8}\%$;

Interest allowed on credit balances, $\left\{ \begin{array}{l} 1\% \text{ under official} \\ \text{Austro-Hungarian} \\ \text{Bank rate;} \end{array} \right.$

Interest charged on debit balances, $\left\{ \begin{array}{l} 1\% \text{ above official} \\ \text{Austro-Hungarian} \\ \text{Bank rate;} \end{array} \right.$

Brokerage, cablegrams, postage, etc., to be debited to the account.

Conceding further that, owing to the scarcity of commercial bills of exchange on Austria, as previously explained, the American banker, desirous of creating a credit balance in Vienna for his requirements, remits his check on London for £400 to his Vienna representatives.

What will such credit balance, in crowns, created in this manner, cost, if Sterling checks are worth \$4.86 per pound, Sterling, in America, and a pound, Sterling, will be credited at 23.915 crowns in Vienna:

EXAMPLE.

Selling price for American banker's draft on London, on date of remittance to Vienna, value of £400 at \$4.86 per pound, Sterling, - - - -	\$1944.
Commission charged in account by Vienna correspondent, - - - 1/8%,	2.43
Bill stamp duty, on Sterling checks, sold in Austria, approximately, - 1/5°/100,	.40
Total cost of £400 in Vienna, - -	\$1946.83

If one pound, Sterling, is worth 23.915 crowns, £400 will be worth 9566 crowns; and since 9566 crowns cost the American banker in the Vienna account \$1946.83, one crown would cost as much as 9566 crowns are contained times in \$1946.83, or .2035+, and ascertained thus:

$$\begin{array}{r}
 9566.)1946.83(.2035+ \\
 \underline{19132} \\
 33630 \\
 \underline{28698} \\
 49320 \\
 \underline{47830}
 \end{array}$$

The cost of the credit balance being ascertained, as illustrated in above example, the American banker will add whatever profit he desires to such cost, and sell his own checks on Vienna accordingly.

When the American banker is called upon to purchase commercial bills of exchange drawn in the money of Austria, viz: crowns and decimals of a crown, the heller, he will ascertain the prices that can be paid for them in the same manner as explained in previous chapters, first obtaining the discount rates from his foreign exchange broker.

The Swiss Account.

The Republic of Switzerland also has a number of large banking institutions engaged in the branch banking system, and an account opened by an American bank with any one of these banks, secures for it correspondents in St. Gall, Basel, Zurich, and other cities in Switzerland where the parent banking-house may have branch offices.

The Swiss monetary unit is the franc with its 100 centimes, exactly as in France and Belgium; and quotations for exchange on Switzerland are expressed in the same way as French and Belgian exchange.

Commercial bills of exchange on Switzerland are not offered freely by exporters, but are presented more frequently than bills on Austria; and since the requirements for checking purposes are commensurately small, the cash credit balances required in the Swiss account can usually be created by the purchase of commercial bills of exchange.

The main principles for calculating the prices that should be paid for bills of this type **are identical with the elements pertaining to the purchase of commercial bills of exchange drawn upon Belgium**, and reference to the example in the Belgian Account will supplement and complete the Swiss Account.

Mention, however, must be made in this connection, that the premium or discount for checks on Paris in Switzerland usually varies from the quotations obtaining in Belgium for Paris checks, and exact data covering this factor should be obtained from the Swiss correspondent direct, or from the foreign exchange broker, before bills on Switzerland are bought.

And further, it should be noted, that if the proceeds of bills purchased are intended for credit on the books of the Swiss correspondent, and are not to be remitted for account of the American bank by the Swiss banker to Paris, then **one commission**, that of the Swiss banker, will only be taken into consideration, the Paris account current commission not entering into the transaction at all.

Should it be impossible, however, to cover the Swiss account for requisite amounts by the purchase of commercial bills, then recourse can be had by the remittance of either bankers' checks on London in pounds, Sterling, or bankers' checks on Paris in francs, both being equally available by Swiss bankers, and both types of remittance will be placed to the credit of the account of the American bank, upon receipt, at the official current rate of exchange by the banker to whom transmitted.

The terms and conditions for creating American international relations in banking between the Swiss and American bankers, **in common with the conduct of every European account**, depend upon the volume and character of the transactions passing through the account.

Ordinary accounts can be established, however, by American banks with Swiss banking institutions on the following basis:

Account current commission, - - $\frac{1}{2}\%$;

Interest on credit balances, per annum, $\left\{ \begin{array}{l} \frac{1}{2}\% \text{ under official} \\ \text{Bank rate,} \\ \text{maximum rate } 3\%; \end{array} \right.$

Interest on debit balances, per annum, $\left\{ \begin{array}{l} \frac{1}{2}\% \text{ over official} \\ \text{Bank rate,} \\ \text{minimum rate } 4\%; \end{array} \right.$

Postage, cablegrams and petty disbursements to be charged to the account.

The Italian Account.

The direct exports from the United States to Italy have increased largely during the past few years, in fact to such an extent that while heretofore American credit balances on the books of the American correspondents in that Kingdom were usually created by the remittances of bankers' checks on London or on Paris, and converted at the current rate of exchange; nowadays, owing to the increase in exports, the international tide has turned, and, instead of remittances from America to Italy, such exchanges flow from the Italian cities to the American states.

Commercial bills of exchange, drawn upon the several cities in Italy, are offered by exporters in amounts in excess of requirements for checking purposes, and this surplus is generally remitted by the banker there to the Paris correspondent for account and credit of the American bank.

These bills of exchange are ordinarily drawn at sight, or at three days' sight, and are made payable in francs at the current rate of exchange for bankers' checks on Paris, and, in consequence, the cost of exchange on Paris must be paid by the drawees of the bills.

Another illustration of the popularity of branch banking in Europe is its use in the Kingdom of Italy, wherein are a number of banking institutions of national importance with branches in all of the leading cities, including Rome, Genoa, Naples, and Venice; and association formed by the opening of an account with an Italian bank, being one of the links in the banking chain, affords the many facilities to the American banker of the branch banking system within the confines of Italy.

The Italian account is conducted in the monetary unit of Italy, called the lira, and composed of one hundred centesimi; the lira has the equivalent value of the franc of France,

Belgium, and Switzerland; the exchange quotations are generally expressed in the same manner as exchanges on those countries, although frequently the price of one lira is quoted. Bankers sometimes also quote the price of one franc in selling drafts for small amounts on the countries of France, Belgium, and Switzerland, instead of expressing the rate in the number of francs to the dollar, as stated in the previous chapters.

Admit that an account by an American bank has been opened with one of the Italian banking institutions with its branch offices on the following terms and conditions, and assume full compliance with the Laws of Italy pertaining to bill stamp duties:

Account current commission,	-	-	-	$\frac{1}{2}\%$;
Commission for collecting bills, and remitting proceeds to Paris,	-	-	-	$\frac{1}{4}\%$;
Interest allowed on credit balances,	{ Adjusted according to the monetary conditions;				
Interest charged on debit balances,					
Bill stamp duty on sight bills, approximately,				$1/10\%$;
Bill stamp duty on three-day sight drafts, approximately,	-	-	-	$1\frac{1}{2}\%$;

Postage, cablegrams, and necessary disbursements to be charged to the account.

Commercial bills of exchange tendered for sale by exporters are quite limited in number, and, by way of illustration, attention is directed to the manner of ascertaining the value of a bill drawn on Italy in francs, payable at the rate of exchange for bankers' checks on Paris.

The purchase of such bills, when the proceeds are remitted to Paris by the banker in Italy, is practically tantamount to the buying of bills on Paris, and therefore the basis of purchase will be made upon the price the American bank can sell its Paris checks, to-wit: 5.15.

Price of Three-Day Sight Draft on Italy.

EXAMPLE I.

What price to pay for a three-day sight bill drawn upon a merchant in Italy, payable at the rate of exchange for bankers' checks on Paris, documents on payment:

Basis of calculation, 525 francs = \$100.		
Commission charged by Italian banker for collecting and remitting proceeds of draft to Paris, - - - -	$\frac{1}{4}^{\circ}/_{00}$	FRANCS. .13
French account current commission, -	$\frac{1}{4}^{\circ}/_{00}$.13
Discount to be deducted in Italy for three days' interest, and loss of interest during transit from Italy to Paris, approximately, - - - -	$\frac{1}{8}\%$.66
Italian bill stamp, approximately, - -	$1\frac{1}{2}^{\circ}/_{00}$.78
Margin of profit for American bank, - -	$\frac{1}{2}^{\circ}/_{00}$.26
Total charges in francs, - - -		<hr/> 1.96

to be deducted, by adding to, the rate of 5.15, gives the rate of 516.96, expressed, approximately, $516\frac{7}{8}$, less $1/32$ per cent., the price to pay for above draft.

When no Charge for Italian Commission.

It will be observed that in the above example **no charge** was included for the Italian account current commission, for the reason that the transaction did not pass through the Italian account.

Had the bill been forwarded to the Italian banker for collection and credit, instead of remittance of proceeds to Paris, then the French account current commission should not be considered, and in that event the following charges would have been incurred:

		FRANCS.
Italian account current commission, -	- $\frac{1}{2}^{\circ}/_{\infty\infty}$,	.26
Interest in Italy, deducted by banker,		
three days, about - - -	- $1/32^{\circ}/_{\infty}$,	.16
Italian stamp bill, approximately, -	- $1\frac{1}{2}^{\circ}/_{\infty\infty}$,	.78
Francs, - - - - -		<u>1.20</u>

and the proceeds of the bill would have been placed to the credit of the American bank, upon the books of the Italian banker, at the current **buying** rate of exchange for bankers' checks on Paris.

The Scandinavian Accounts, Embracing Denmark, Norway, and Sweden.

The carriers by water with their bulging cargoes of American exports for the Norse countries plow the sea and deliver their burdens there in annual volume of large proportions; the bills of exchange issued on the merchants of these kingdoms, in payment for goods exported, do not pursue a direct course like their appertaining merchandise, nor, except occasionally, are such evidences of debt drawn in the monetary unit of the Norsemen, called the krone or crown with its 100 öres, but such securities are chiefly drawn in the English pound, Sterling, and the German mark.

A very large percentage of the Sterling bills, issued against exports to Denmark, Norway, and Sweden, are drawn at ninety days' sight upon banks and bankers domiciled in London, and do not enter into the Norse accounts, but pass through the English Account.

Credits are opened by the Scandinavian merchants themselves direct, or through the aid of local bankers, with the banking institutions in London, and against these credits the aforesaid ninety-day sight drafts are issued by American sellers.

Money, ordinarily, is cheaper in England than in the Triple countries mentioned, and Scandinavians, desirous of purchasing goods on ninety days' time, can operate more effectively, in consequence, by opening credits with London bankers than with the Scandinavian banking-houses, including the extra commission exacted by the London City banks for accepting drafts for their account; and further, the American exporters prefer reimbursement on London banks for the reason that drafts of this type are always in demand and can be sold by American merchants at better rates than time bills of exchange on the Norse nations.

The conditions with respect to sight and three-day bills, however, are quite different since the element of time credit, interest, does not enter into the transaction at all, and bills of exchange of this type are usually drawn upon the Scandinavian merchants, or their local bankers, **direct**, payable in kroner, pounds Sterling, or marks. Bills drawn upon Denmark, Sweden, and Norway, **in foreign moneys**, usually read "Payable at the rate of exchange for bankers' checks on London," or, "Payable at the rate of exchange for bankers' checks on Hamburg or Berlin," with the result that **the exchange must be paid by drawees** of respective drafts.

Such drafts may of course be remitted by the American bank to its correspondents in Denmark, Norway, and Sweden for credit; but in all cases the American banker will do well to merely forward these drafts to his Scandinavian bankers for collection and remittance of proceeds to his London correspondents when drawn in pounds, Sterling, and to his Hamburg or Berlin associates when drawn in marks, and in so doing avoid loss of exchange by virtue of conversion that would be incurred were the proceeds converted and credited in kroner on the books of account of the banking-house in Denmark, Norway, or Sweden. In other words, the credit balance required for checking purposes should, when possible, always be created by remittance of bills, drawn in kroner.

The indirect exports of American products shipped to the Norsemen, principally through the intermediate agency of Germany, are still large; by no means do such circuitous shipments represent the figures of former years, since the **direct** commerce between the United States and the respective kingdoms of Denmark, Norway, and Sweden is increasing year by year.

Branch banking is at home in all of the Norselands, and business relations formed between an American banking institution and a prominent banker in the cities of

Copenhagen in Denmark,
 Christiania in Norway, and
 Stockholm in Sweden,

will provide the American bank with correspondents in all of the smaller cities therein on whom checks could be issued and bills remitted to for account of the parent institution for credit of the American bank.

When the American correspondent in these centres has not its **own** branches in the smaller towns, the names of correspondents there will be furnished with whom the same relations may be established in like manner as with the branch agencies, subject to the usual small extra commission.

The three principal cities, previously named, will be found quite adequate for all practical purposes and requirements, and business ties with bankers in these Norse cities may be opened on these terms and conditions, to-wit:

Account current commission,	- - -	$\frac{1}{2}^{\circ}/_{\infty}$;
Commission charged for collecting drafts payable in Sterling and/or marks, and remitting proceeds,	- - -	$\frac{1}{2}^{\circ}/_{\infty}$;
Interest allowed on credit balances,	{	According to the monetary conditions;
Interest charged on debit balances,		
Three days' sight and other time bills of exchange are subject to bill stamp duties of, approximately, - - - $\frac{1}{2}^{\circ}/_{\infty}$;		
Transit drafts and checks are exempt from stamp duty, or the amount thereof is so small as to be practically exempt;		
Postage, cablegrams, and divers expenses charged to the account.		

Conceding that the American bank has opened an account on the foregoing terms and conditions, the prices to be paid for the different types of bills of exchange follow:

BILLS PAYABLE IN STERLING, MARKS, OR KRONER. 175

Bills on Scandinavian countries payable in Sterling and / or marks will be considered first, since these bills are offered more frequently than drafts payable in kroner.

Sterling bills of this class drawn at sight, or three days' sight, are subject to the following charges:

Basis of calculation, £100=\$486.

Charges for collecting draft and remitting		DOLLARS.
proceeds to London, - - -	$\frac{1}{2}^{\circ}/_{00}$,	.24
Loss of interest occasioned by time consumed from and to London and the Scandinavian countries, about six days, say, at 3%, - - -	$\frac{1}{2}^{\circ}/_{00}$,	.24
Postage, bill stamps, and possible loss in decline in exchange during transit, -	$\frac{1}{2}^{\circ}/_{00}$,	.24
Total charges, - - -		.72

or, approximately, $\frac{3}{4}$ cent per pound, Sterling, so that the American banker should pay about $\frac{3}{4}$ cent per pound, Sterling, less for a sight Sterling bill drawn on a Scandinavian country than for a sight draft drawn direct upon London. The usual difference, however, in course of business transactions is one cent per pound, Sterling, including the loss of three days' interest, were the draft, on Scandinavia, in Sterling drawn at three days' sight.

For drafts drawn at sight, or three days' sight, upon Scandinavian countries payable in marks, $\frac{1}{8}$ per cent. less is usually paid than for three days' sight drafts on Germany, owing to the subsequent charges amounting to, approximately, $\frac{1}{8}$ per cent:

Basis of calculation, 400 marks=\$94.

Charges for collecting draft and remitting		DOLLARS.
proceeds to Germany, - - -	$\frac{1}{2}^{\circ}/_{00}$,	.05
Loss of interest during transit, postage, bill stamp, and possible loss in decline in exchange during transit, -		.075
Total charges, - - -	$\frac{1}{8}\%$, or	.125

Long time bills of exchange, that is to say, drafts drawn at thirty-day, sixty-day and ninety-day sight, on the Scandinavian kingdoms, payable in pounds, Sterling, or marks, are not issued frequently; and these bills, by reason of the fact of not being discountable, are undesirable. Further, the drawees refuse to accept such bills at a specified rate of exchange, because payable at the rate of exchange obtaining on date of maturity. When the American bank is obliged to purchase drafts of this type, the interest should be deducted at, say, five per cent. per annum for the time represented by the tenor of the paper, deducting also about $\frac{1}{4}$ per cent. from the current rate of exchange, to protect its interests against possible loss in exchange from date of purchase to date of maturity.

Illustration follows showing purchase of bills of exchange on Scandinavian countries, drawn in kroner:

What price to pay for a sight draft on Copenhagen, Christiania, or Stockholm:

EXAMPLE.

Basis of calculation, 100 kroner=\$27.

Selling price of bankers' checks in New

York, $26\frac{7}{8}$ cents per krone;*

Commission charged in account, - -	$\frac{1}{2}\%$	$\frac{1}{100}$	DOLLARS.
			.0135

Margin of profit for American banker, $\frac{1}{8}\%$	$\frac{1}{8}$	$\frac{1}{100}$	
			.0337

.0472

deducted from the selling price for checks, viz: .26875, gives the approximate rate of $26\frac{13}{16}$ cents per krone, the price to pay for above draft.

To determine the several purchase prices for time drafts drawn in kroner, proceed to ascertain their respective values in the same manner as other foreign bills of exchange, deducting charges for bill stamps, commission, profit, and interest for time, according to tenor of respective drafts at obtaining rates of interest in respective country whereon the draft is drawn.

* Danish & Swedish *krona*, and Norwegian *kruna*.

Russia.

The geographical proximity between the seashores of the Russian Empire in Asia and the Republic of the United States of America reveals physically what is true of the Russo-American political relations, a close and personal national friendship.

In strange contrast thereto are the long-distance, that is to say, the **indirect** financial inter-relations of Muscovite and American banking institutions—the anomaly in international exchange.

Russia, preëminent among the nations of the world, and whose political power is universally respected, has practically no **direct** ties with the American banking associations, and few, if any, American banks carry accounts on the commercial books of Russian bankers.

The **direct** exports of American products to Russia are of such insignificant proportions, that the tender for negotiation to a Chicago banker of a bill of exchange drawn there in its monetary unit, the ruble, with its 100 copecks, would be looked upon as a curiosity. The small volume of goods consigned **direct** to Russian merchants are usually paid for by bills drawn in pounds, Sterling, accepted payable in London.

The **indirect** exports of American goods to Russia are, however, quite important, and England and especially Germany freely distribute American commodities among the Slav people.

American exporters are averse to selling their wares **direct** to Russian merchants upon their customary terms of purchase; while the English and German tradesmen are willing

to grant the old established basis of long time credits. It is not uncommon, for instance, that German merchants sell their merchandise on a credit basis of from six to twelve months' time.

The chief reason why American exporters have been unsuccessful in invading the South American countries, is the extended and protracted credit embraced in the Spanish-American contract of sale.

The custom of long time credit allowed to foreign merchants by the German tradesmen is quite in accord with conditions obtaining in parts of the German Empire even at the present day, and, by way of example, physicians and merchant tailors frequently adhere to the old practice of rendering bills for services, and merchandise sold and delivered, annually or semi-annually.

The international relations between Russia and Germany are very close, and, as a result, Teutonic banking institutions have correspondents throughout the Russian territory; and the names of the several correspondents in Russia are furnished by the German banker to enable the American bank to issue its own drafts in rubles upon the banking firms in Russia.

All drafts issued by the American banking-house should be advised simultaneously to the drawees and to the German correspondent on whose account the Russian bankers will honor the American checks.

Such drafts will be debited to the account of the American bank by the German correspondent on date of receipt of appertaining advice at the current rate of exchange.

The following example is presented to ascertain the price the American bank can afford to sell its sight drafts, checks, on Russia, assuming that the quotation for bankers' checks on Russia in Germany is $2.16\frac{1}{4}$, such rate expressing the cost of one ruble, viz: 2.1625 marks in Germany, conceding also that checks in America on Germany are worth $95\frac{1}{2}$, or, $23\frac{7}{8}$ cents per mark, and allowing further for commission and postage charged by the German correspondents for protecting such drafts.

EXAMPLE.

Basis of calculation, 100 rubles.

Check on Russia for rubles, 100.

Minimum commission and

postage charged by

German banker, - .50

Rubles, - - 100.50 at $2.16\frac{1}{4}$ MARKS. $= 217.35$

If one mark is worth $23\frac{7}{8}$ cents in America, 217.35 marks will be worth \$51.90, the cost of the American banker's check on Russia for 100 rubles, or, $51\frac{9}{10}$ cents per ruble. This price represents the cost to the American banker, and thereto must be added whatever margin the American bank desires for its profit.

Checks on Russia are almost invariably issued in small amounts; the ordinary commission exacted by the German correspondent for protecting checks is 50 copecks, or $\frac{1}{2}$ ruble, including postage.

CHAPTER XXI.*

DOCUMENTARY ACCEPTANCE BILLS AND COLLATERAL, LETTERS OF DELEGATION AND BANKERS' CHECKS, WITH GENERAL INSTRUCTIONS FOR THEIR ISSUE.

CHAPTER IV was devoted to a general description of documentary bills, documents on payment, and appertaining documents, with general instructions for their issue, with presentation of specimens of a documentary payment bill and a general hypothecation power, and disclosure of the collateral thereto, to-wit: Bills of Lading, Certificates of Marine Insurance, Shippers' Invoice, and Inspection, Weight, and Consular Certificates, with copious suggestions as to their execution.

The subjects of Documentary Acceptance Bills, Bankers' Checks, and Letters of Delegation, having to do with the English, German, French, Dutch, and other foreign banking correspondents of American banking institutions, more appropriately follow, to a better understanding of such commercial paper, after exposition, respectively, of the Accounts, known as the English, French, German, Dutch, and other trans-Atlantic banking depositaries of and clearing-houses for American banks; of course Documentary Acceptance Bills may be drawn on persons other than bankers.

Documentary Acceptance Bills.

The various documents constituting a complete Documentary Bill of Exchange, Documents on Payment, were described at length in Chapter IV, entitled "Descriptions of Bills and Collateral," and explanation will now follow of a Documentary

* Conclusion of Chapter IV.

Bill of Exchange, **Documents on Acceptance**; and such Acceptance Bill in all respects is similar to a **Documentary Payment Bill** except that the documents are surrendered **on acceptance** instead of **on payment**, as will be observed from the following submitted specimen:

Form of Acceptance Bill.

EXHIBIT I.

Documents to be Surrendered on Banker's Acceptance.

In case of need, apply to Mr. F. W. Green, Christiania.

Exchange for CHICAGO, Illinois, _____, 19____.

£_____.

At ninety days' Sight of this First of Exchange,

Second unpaid, pay to the order of _____

_____, Sterling.

Value received and charge the same to the account of

SWIFT & CO.,

To _____ by _____

DRESDNER BANK,

London, England.

No. _____

Drafts of this type are accompanied by shipping documents having precisely the same character as **Documentary Payment Bills**, and such shipping documents were presented in the preceding pages of this Chapter.

The left hand margin of the draft has the words following: "In case of need, apply to Mr. F. W. Green, Christiania;" such note was thereon inscribed by the drawers for this reason: Mr. F. W. Green is the Scandinavian agent for the exporters, Messrs. Swift & Co. of Chicago, and the merchandise covered by the attached documents was sold by him to some merchant in the Scandinavian countries, who, in turn, has opened a credit through his local banker with the Dresdner Bank of London, the drawee of the draft, since bills on London can be sold by the exporters to better advantage than drafts on Scandinavian cities, and payment for goods in this manner was a condition of the sale.

If for any reason, then, the drawee refuses to accept the draft upon presentation, the draft is immediately referred by the holder to Mr. F. W. Green, Christiania, who will arrange for its prompt protection in behalf of the drawers, thereby avoiding all incidental expenses, such as protest fees, telegraphic expenses, loss of interest, etc.

All documentary bills of exchange on Germany, except Letters of Delegation with documents attached, are subject to the German bill stamp duty of one-half per mille; and such Letters of Delegation prove the exception and are exempt from such stamp duty.

Letters of Delegation.

To save the expense incident to the German stamp duty, exporters, frequently, instead of issuing sight, or three-day sight drafts, on their German customers, instruct their buyers to pay the value of the amount of their purchases to the German correspondent of the American banker to whom the Letter of Delegation was sold by the exporter.

This form of exchange is quite extensively sold, and a specimen form of a Letter of Delegation is in consequence annexed:

Specimen Letter of Delegation.

EXHIBIT II.

ARMOUR & CO.

No. _____

CHICAGO.

Foreign Department.

CHICAGO, Illinois, _____, 190____.

To ATLAS NATIONAL BANK,

Chicago.

To the CASHIER:—

We beg to inform you that Messrs. Tietgens & Robinson of Hamburg, Germany, will deposit M. _____ say _____ Marks, for your account with Filiale der Dresdner Bank, Hamburg, on presentation of this Letter of Delegation, _____ shipped to _____, viz: _____

Yours very truly,

ARMOUR & CO.,

by _____

Letters of Delegation are usually accompanied only by bills of lading, to be delivered on payment of the amount instructed by drawers to pay the German banker named therein, but sometimes also have attached other shipping documents usual to other documentary drafts.

The analysis of **documentary** bills of exchange issued by exporters has been concluded, and discussion follows of checks issued by American bankers upon their European correspondents.

Bankers' Checks.

Bankers' Checks are sold, either to their customers over the counter by the bank of issue, the drawer, or to other bankers direct, or indirectly through foreign exchange brokers.

A demand draft on London, commonly called a Banker's London Check, is herewith submitted:

Banker's London Check.

EXHIBIT I.

Original.

ATLAS NATIONAL BANK,

£_____ CHICAGO, Illinois, _____, 19____.

On demand, pay to the order of

_____, Duplicate unpaid,
_____, Sterling.

Value received and charge to account of

ATLAS NATIONAL BANK,

by _____

THE CITY OF LONDON BANK, Limited,
London.

No. _____

Banker's German Check.

A specimen of a Banker's German Check is affixed, and especial attention is called to this clause thereon: "Pay against this Check from balance due us."

This form of check is essential to be exempt from the stamp tax under the German banking laws, drafts drawn in any other form of verbiage are subject to one-half per mille, bill stamp tax, while the following specimen is permitted to be used free from such tax:

EXHIBIT II.**Original.**

ATLAS NATIONAL BANK.

No. _____

M. _____ CHICAGO, Illinois, _____, 19____.

Pay against this Check from balance due us to

_____, or order,

_____ Marks.

ATLAS NATIONAL BANK,

by _____

To FILIALE DER DRESDNER BANK,

Hamburg.

Banker's Paris Check

The forms for Bankers' Paris Checks are generally furnished by the Paris correspondent, and are printed in the French language.

It is advisable to fill up the body of these Checks in the French language for uniformity, although it is not necessary to do so.

It is, however, **important** that the date of all French Checks be written out in letters instead of figures, for otherwise such Checks will be subject to the bill stamp tax of one-half per mille. Attention is called to this method of dating checks, as will be seen from the following specimen on the face whereof appears the following phrase:

Dater en Toutes Lettres.

EXHIBIT III.

Original.

DATER EN TOUTES LETTRES.

CHICAGO, Illinois, _____, 19__.

CREDIT LYONNAIS,
Paris.

Payez a l'ordre de _____

la somme de _____

No. _____

ATLAS NATIONAL BANK,

by _____

19 Boulevard des Italiens,

Caisse ouverte de 9H-'res a 4H-'res.

A General Specimen of Banker's Check.

A general form of Banker's Check is the blank form of Check available for issuing Checks on any country, irrespective of the monetary unit.

The subjoined specimen of Check is merely a blank Check, thereby permitting its use in issuing Checks for rubles on Russia, kroner on Norway, Denmark and Sweden, francs on Belgium and Switzerland, crowns on Austria, etc., and the name of the drawee and the money of the country can be inserted according to requirements.

EXHIBIT IV.

Original.

ATLAS NATIONAL BANK.

No. _____

CHICAGO, Illinois, _____, 19____.

Pay against this Check from balance due us to

_____, or order,

ATLAS NATIONAL BANK,

To _____ by _____

All documentary foreign bills of exchange and bankers' foreign Checks, for large amounts, are issued in two parts, and are called, "First of Exchange, or Original," and "Second of Exchange, or Duplicate," and, in the event of the payment by the drawee of either the Original or Duplicate, the remaining part becomes null and void.

CHAPTER XXII.

BANK POST REMITTANCES—DEL CREDERE.

BANK Post Remittances provide a system whereby money is remitted direct to the residence of the beneficiary by mail, and offers special advantages to persons residing in small European cities where more or less difficulty would be encountered in negotiating bankers' drafts or checks, owing to the lack of banking facilities.

The method employed is very simple. All that is required of the American banker to effect Bank Post Remittances is: to obtain the full name and complete address of the person to whom the money is to be remitted, and forward a copy thereof to his banking correspondent in the respective country, and to request such foreign correspondent to execute the remittance to the debit of the account of the American bank.

The European governments accept remittances of money through postal service, guaranteeing the delivery to addressees, exacting a small fee for their services in so doing.

Bank Post Remittances, intended for beneficiaries domiciled in Russia and made payable in rubles, are generally effected through the office of the Hamburg, or Berlin, correspondent of the American bank, and the amounts thereof are debited in the account at the current rate of exchange, plus postage and commission.

It is advisable, owing to the peculiarity—characteristic of Russian names, that both the given and surnames of the beneficiaries and their addresses in Russia should be written by the applicants themselves.

Two forms for Bank Post Remittances follow:

Bank Post Remittance.

Blank to be filled in and forwarded to the banker abroad,
with request to execute the Remittance:

EXHIBIT I.

BANK POST REMITTANCE.

No. _____

_____, 19__.

At the request of _____

Residing at _____

Please forward to _____

Residing at _____

The amount of (foreign money) _____

At rate _____, \$ _____. Postage, 15 cents, Total, \$ _____.

ATLAS NATIONAL BANK.

Form of Receipt to be given to the Sender:

EXHIBIT II.

BANK POST REMITTANCE.

No. _____

_____, 19__.

Received from _____

For Remittance to _____

Amount in foreign money, _____

Amount in United States Currency, _____

(Signature of Bank's Officer.)

DEL CREDERE.

DEL Credere is a term applied to a custom in vogue among European bankers of charging a commission for guaranteeing the payment of a time bill of exchange at maturity.

The commission contracted for in Del Credere transactions amounts to practically the same compensation as the premium charged by a fire insurance company on its policies, differing only in the nature of the protection afforded.

Del Credere is a protection against a possible loss that may be sustained by the non-payment of a draft or bill of exchange, while a premium paid to a fire insurance company protects against loss by fire.

The rate of commission exacted by bankers for securing Del Credere ranges from one-fortieth to one and one-half per cent. of the face amount of the draft, according to the life of the draft and the financial responsibility of the respective drawee or acceptor. If no collateral security underlies the Del Credere agreement, the banker furnishing the guarantee of payment (Del Credere) has as his sole protection against possible loss by virtue of non-payment of draft, the financial liability of the drawee or acceptor. Since the very object for securing Del Credere is to release the drawer and endorser, if any, from any liability in the event of dishonor at maturity, **recourse** with respect to drawer and endorser, if any, is waived.

The foreign exchange bankers in this Country are called upon quite frequently to secure Del Credere through their European bankers on behalf of their clients. To illustrate:

A merchant in Antwerp desires to purchase merchandise from an exporter in Chicago, upon a cash basis of, say, sixty days' time from the date of acceptance of the respective draft,

and to conform thereto would necessitate the **surrender** of documents covering relative shipment upon drawee's acceptance of draft.

Although the financial standing of the Antwerp merchant, the drawee, is first class, prior sales, upon a similar basis of reimbursement, may have been consummated to such an extent, as to deter the Chicago merchant, or his banker, from incurring the additional risk involved.

To refuse to execute the order upon the terms and conditions stipulated by the Antwerp merchant might offend him and result in the loss of a valuable customer. Rather than run this risk, the Chicago exporter prefers to reduce his profit on the transaction, to the extent of commission to be charged for securing Del Credere, and the cost thereof will be ascertained by telegraphic inquiry by the Chicago banker from his Antwerp banking correspondent.

Del Credere contracts are practically unknown to the American banking fraternity. The exceptive case in use in this Country approaching in similitude to the Del Credere is that of charging a commission for the conversion of a single named bill into a double named bill by furnishing an acceptable endorsement to the single named bill as explained in Chapter IV, page 47.

CHAPTER XXIII.
GENERAL INSTRUCTIONS COVERING
THE CONDUCT OF
THE FOREIGN ACCOUNTS.

THE management of the several foreign accounts and the actual administration of international exchanges between the American banker and his European correspondents were fully outlined in the preceding Chapters entitled: The English Account, The German Account, The French Account, Holland, Belgium, and sundry Accounts.

The details especially applicable to each of these accounts were presented under the respective titles aforesaid.

The object of the present Chapter will be to present general suggestions pertaining to all of the leading European accounts.

Remittances.

All bills of exchange remitted for credit should be signed and endorsed in writing. When drawn or endorsed by a corporation, the signer or endorser should add his official capacity to his signature.

The body of the drafts for the amount in letters should correspond with the amount as expressed in figures.

The documents pertaining to documentary bills of exchange should be carefully examined. Bills of lading and insurance certificates should be properly signed and endorsed, and consular certificates, if any, weight certificates, certificates of origin, etc., should be signed by an authorized person.

The merchandise covered by drafts, as expressed in the bill of lading, should correspond with the description as given in

the remaining relative documents. The amount of insurance, as represented by the certificate of insurance attached to draft, when insured by drawer, should approximately equal the face amount of the draft.

A discrepancy in the draft, or in any of its constituent documents, should be rectified by the drawer, to insure the prompt protection of the respective draft by the drawee. An omission or oversight so to do will doubtless result in dishonor of the draft and will incur incidental expenses for cablegrams, protest fees, etc. The non-acceptance or non-payment of any bill of exchange, remitted for credit abroad, should be **immediately** reported to the forwarding bank by its foreign correspondent to whom the bill was remitted, by cablegram, and standing instructions to this effect should be given to all the foreign correspondents of the American bank at the time business relations with them are inaugurated.

All information of this nature, received by the American bank, should be **immediately** reported to the drawers and / or endorsers of the respective bill. When these parties are located out of town, the information should be communicated to them **by telegraph**. The amount paid, together with loss of exchange, protest fees, interest, commission, etc., will be demanded by the American banker from the drawers, or endorsers, if any, of dishonored bills of exchange, at the time of the notification to this effect, and if the bills are subsequently adjusted by the drawee, or acceptor, the amount, less expenses, will of course be refunded to drawers, or endorsers, if any.

Where there is no direct connection with a correspondent at the city upon which the bill is drawn, the bill should be remitted to the **nearest point** to that city wherein the American bank has a correspondent. This is very essential and should not be lost sight of, otherwise, The Foreign Department of the American bank might sustain serious loss. To explain:

Some years ago, a banker purchased a draft on Dublin, Ireland. Although he had an active correspondent there remittance for collection and credit was made to his London correspondents. The reason for so doing was that his balance in Dublin was ample for his requirements, whereas his English account was short of funds and such remittance of the draft in question would replenish his London account to the extent of the Dublin draft. During the transit of the draft from London to Dublin, the drawer of the draft failed, and the result was that the draft was naturally protested for non-payment.

In due course, the American banker endeavored to collect from the seller, the endorser of the draft, the amount thereof by him originally paid; his demand was ignored, on the grounds, that had the American banker remitted the draft direct to his Dublin correspondent, to insure presentation at the earliest moment, instead of collecting in a circuitous method, via London, the draft would doubtless have been paid, since it was proven that the drawer had met all obligations up to the day of the failure, that occurred, as previously stated, during the passage of the draft from London to Dublin.

The banker recognized the equity in the issue raised by his client, relinquished his demand, and stood the loss.

Especial care should be exercised by the American banker in giving instructions to his foreign correspondents, with respect to the delivery of documents attached to all documentary bills of exchange. When the bills are drawn upon banks or bankers, the documents are in all cases surrendered to the drawees against their acceptance, otherwise the banker would consider such action, to say the least, indelicate were the documents not delivered to him on his acceptance, because thereby reflection might be construed not unjustly, by him, against his integrity and financial responsibility. Acceptance would, certainly, be refused by him on any other conditions.

The instructions, covering delivery of documents attached to documentary bills drawn upon merchants, should be given in accordance with the wishes of the drawers. Where the drawers are not financially strong, and their bills are drawn upon merchants known by the American banker to be weak, with instructions to surrender documents on acceptance, The Foreign Department of the American bank should **refuse** to purchase their bills, owing to the risk of loss involved.

Unless the instructions covering the delivery of documents are stamped by the drawers upon the face of all documentary bills of exchange, of every description, **written instructions** should be demanded from the drawers, and carefully preserved by the American banker to guard against the possibility of a dispute or misunderstanding arising, in the event of the failure of the drawee to whom the documents may have been surrendered on acceptance. The importance of the suggestion will be readily perceived.

These general instructions having been completed with respect to remittances constituting the **credit side** of the American accounts conducted with European correspondents, attention will now be directed to the items on the **debit side** of the foreign ledgers.

Drafts.

All valuations upon American foreign correspondents, whether drawn at **sight, or at thirty, sixty, or ninety days' sight**, should be promptly advised on date of issue and forwarded by the first outgoing mail. Sight drafts, or checks, will be charged to the American account upon receipt of appertaining advices from the American banker by his European friends, with the exception of checks on London debited to the American account upon actual payment, unless arrangements to the contrary have been agreed to. Time drafts will be charged to **acceptance account** upon acceptance,

and transferred to the debit of the American check or current account, at maturity. Time drafts drawn under American Commercial Letters of Credit will be treated in like manner. Inasmuch as the acceptance obligates the acceptor to pay at maturity, all items to debit of the American bank, under the acceptance account, should be covered by documentary bills of exchange, cash funds, or satisfactory security, to be held by the acceptor from date of his acceptance to maturity, unless the drafts have been issued under **blank**, uncovered, credit, in terms with agreement. Drafts issued against Travelers' Letters of Credit are always made payable at sight or demand, and will be charged to the American account upon presentation and payment. **All payments**, telegraphic, or otherwise, effected by the foreign correspondents for its account, will be placed to its debit upon receipt of respective instructions from the American bank.

A few suggestions follow that may be profitably employed, at times, **provided** discount rates have not been secured on bills to arrive.

As the interest rate on American cash credit balances abroad is always less than the discount applied to time bills of exchange, forwarded for credit of the American bank, under discount, considerable money can be saved by the American banker in the form of discounts, by instructing his correspondents at the time his remittances of this nature are forwarded, to discount the bills **only when his cash account requires funds to prevent overdraft**.

Bills accompanied by these instructions will be presented for acceptance upon arrival, and then held in the portfolio by the correspondents of the American bank for account, interest accruing thereon to its credit from date of acceptance to date of discount, if documentary acceptance bills, or at the retirement rate of discount, if documentary payment bills, payable in European continental countries, provided the latter are not taken up by drawees.

When should bills be discounted in compliance with the above suggestion is a question naturally asked, and reply is :

I. At a time when the American banker is accumulating foreign bills of exchange, by purchases from day to day, to create ample funds for the protection of checks to be delivered at some future date, under contract of exchange, sold by him for "Future delivery," or, as cover for outstanding "Finance Bills" maturing at a fixed date;

II. At times, when the discount rate in the country on which the bills of exchange are drawn, is high, and the American bank has reason to believe that by postponing discount, it will profit by a reduction in the discount rate on which its calculations are based;

III. Or, at a time, when the rates for exchange are abnormally low, and the American bank is building up its foreign balances by daily purchases of discountable bills of exchange at the current prices to be re-sold by it, subsequently, in the form of checks, when the market has had the anticipated advance.

Why could not the American bank accomplish the above purposes by holding bills in its portfolio, as outlined in the Chapter devoted to "Foreign Bills of Exchange Purchased for Investment"—the reply is: that these bills held in the portfolios of the foreign correspondents could, at any time, be discounted at the current rate of discount, for immediate delivery, which rate is usually lower than for delivery to arrive, and furthermore, the American banker could effect cable transfers at any time, without creating cash overdrafts, as his correspondents would discount bills from portfolio for an equivalent amount to comply with the following instruction, viz: "Discount when our cash account requires funds to prevent overdraft."

CHAPTER XXIV.

NEW YORK EXCHANGE.

THE FOREIGN EXCHANGE BROKER.

THE foundation of foreign exchange banking throughout the United States, as explained in Chapter XV, is constructed by New York City bankers, and the American quotations whereon foreign bills of exchange are bought and sold emanate from the banking-houses in Wall Street in that Metropolis.

The factor of New York Exchange, therefore, enters into every foreign exchange transaction in the United States of America executed by American bankers, not domiciled in the City of New York.

The illustrations, one and all, covering the processes to determine the prices to be paid for the various types of foreign bills of exchange submitted in the several European Accounts, were computed on the basis of New York Exchange being quoted at *par* in the purchasing market; and, consequently, the factor of New York Exchange did not enter into the examples given.

Had, however, Exchange on New York City been quoted at fifty cents per one thousand dollars, *discount*, in the market where the various foreign bills of exchange were purchased, then an additional item of one-half per mille—the equivalent of fifty cents per one thousand dollars, *discount*—should have been included in calculating the total charges on the respective bills of exchange.

To illustrate: on the basis of a discount of one-half per mille for New York Exchange, the additional disbursement would have amounted to the respective subjoined marginal charge:

On Bills of Exchange on	Basis of Calculation.	Dollars.
Great Britain, -	100 pounds, Sterling =	\$485, .2425
Germany, - -	400 marks - - =	94, .047
Holland, - -	100 florins - - =	40, .02
France, Belgium, and		FRANCS.
Switzerland, -	100 dollars - - =	525, .2625

Had New York Exchange been selling at fifty cents per one thousand dollars, **premium**, rather than at a discount, then the factor of New York Exchange would have been an item of **profit** instead of a loss or charge.

With the aid of the preceding explanation, the determination of the gain or loss, represented by the factor of New York Exchange, relative to transactions in foreign exchange in American cities, outside of Greater New York, will be a simple mathematical problem; such element of Exchange, owing to the constantly vacillating quotations for Exchange on New York City in the various financial centres of the United States, can not be fixed, but must be determined by every American banker, before his foreign exchange transactions are entered into.

The banking-houses of the Western States need large portions of New York Exchange for the requirements of their local and country clientèle, and the amount of New York Exchange created by their Foreign Exchange Departments through the sale of bills to New York bankers reduces to the extent of their issue the sum total of their purchases of New York Exchange that otherwise would have to be purchased in the open market through New York exchange brokers, eliminating, of course, the New York funds received from their customers in the usual course of business.

THE FOREIGN EXCHANGE BROKER.

THE prices of commodities, having values of a fluctuating nature, are in most cases settled upon the floors of various exchanges; these marts are known as the

Stock Exchanges for determining values of stocks and bonds;

Petroleum Exchanges for adjusting the values of petroleum and its products;

Cotton Exchanges for regulating the value of cotton;

Boards of Trade for fixing the value of cereals and provisions, etc.

The values of the foreign exchanges, at times of a highly vacillating nature, are not created or recorded within the walls of any Exchange, but are deduced and tabulated by the Foreign Exchange Broker, in New York City, from actual conditions existing there between the prominent Foreign Exchange Bankers.

The task of formulating market quotations, especially in a nervous market, is not an easy one, and consequently requires years of experience. It is accomplished in the manner following:

Early in the morning, the Broker makes his first call upon all of the leading bankers, and inquires whether they are buyers or sellers of exchange, and at what prices. When he has completed his circuit, he is in a fair position to gauge the approximate market. When no important political or financial event has transpired over night, the opening quotations are generally based upon the closing quotations of the previous day. Assume that these rates were for Sterling checks on London, 4.87.90 bid; 4.88 asked; but that there

were more bankers willing to buy, than sell, at these rates. The Broker would quote the market "Strong, with a higher tendency," since the excess of **demand** as compared with the **supply** would usually result in higher prices before the close of the day. As the factors and conditions regulating the rates of foreign exchange are constantly changing, the Broker must be on the alert throughout the entire day, between the offices of the bankers, to remain in constant touch with the market.

A banker may have been a seller of Sterling exchange at ten o'clock at 4.88, and, a few minutes later, some unforeseen transaction may make him a buyer at a higher price; and so on throughout the day, the requirements and attitudes of the bankers are undergoing a constant change resulting in fresh quotations being established.

The small percentage of profits in foreign exchange transactions has resulted in a reduction of the Broker's commission within the last few years.

In former days, the conventional scale of commission was $1/32\%$ on Sterling, that is, about \$15 on every £10,000, Sterling, and $1/32\%$ on marks, francs, etc., whereas, at the present day, \$5 on £10,000, and $1/64\%$ on the continental exchanges, are the usual brokerages.

In addition to the reduction of commission, the Broker has sustained a further loss, through the practice in vogue today, of bankers dealing **direct** with each other, entirely dispensing with the services of the Broker.

When it is taken into consideration that the Bankers are indebted to the Foreign Exchange Brokers for keeping them posted with respect to the fluctuations and general condition of the market, it is only just to reward the services of the Broker by giving him an opportunity to make commissions.

CHAPTER XXV.*

CONVERSIONS.

Conversions of the Moneys of Foreign Countries into
United States Money and Vice-Versa Operations.

Additions and Subtractions in English Money, and
Computation of Interest or Per Cent. on
English Money.

ENGLISH MONEY.

MOST foreign countries have adopted what is known as the decimal monetary system, wherein 100 of the decimal equal one of the unit; for example: money of the United States where 100 cents equal one dollar or unit. The English monetary system in use throughout Great Britain and most of her colonies and dependencies and to some extent in all the countries of the world, is so different from that of other countries, that the following explanations and examples seem necessary:

Table of English Money.

EXPRESSED		£	s.	d.	far.
4 Farthings, - far.	= 1 Penny,	1	= 20	= 240	= 960
12 Pence, - d.	= 1 Shilling,		1	= 12	= 48
20 Shillings, - s.	= 1 Pound or Sovereign,		1	= 4	
21 Shillings, -	= 1 Guinea.				

* By permission from "Foreign Exchange," by Howard K. Brooks, Chicago.

Addition in English Money, Example:

	£	s.	d.
Add, {	240	12	8
	15	10	5
	5	5	4
Answer,	£261	8s.	5d.

EXPLANATION.—Since 12d. = 1s. and the total of pence is 17, carry 1 to shillings leaving 5d; since 20s. = 1£, and the total of shillings is, including 1 carried from pence, 28, carry 1 to pounds, leaving 8s.

Subtraction in English Money, Examples:

	£	s.	d.
From	215	12	8
Subtract,	210	8	4
Answer,	£ 5	4s.	4d.

This is simple subtraction as in other moneys, the minuend or upper figures being greater in each case.

	£	s.	d.
From	215	12	8
Subtract,	210	4	9
Answer,	£ 5	7s.	11d.

The subtrahend or lower figures in pence being greater, add 12 to upper figure, making 20 (12d. = 1s.); 9 from 20 leaves 11; carry 1 to shillings.

	£	s.	d.
From	215	12	8
Subtract,	212	15	10
Answer,	£ 2	16s.	10d.

The pence and shillings in lower amount being greater, add 12 to pence, making 20, 10 from 20 leaves 10d.; carry 1 to shillings, making 32, 16 from 32 leaves 16s.; carry 1 to pounds, 213 from 215 leaves 2 pounds.

To Reduce Shillings and Pence to Decimal of Pound.

Multiply the shillings by .05, because one shilling is $\frac{1}{20}$ or five-hundredths of a pound; multiply the pence by .004 $\frac{1}{6}$, because one penny is $\frac{1}{240}$ th or $\frac{4}{6}$ $\frac{1}{6}$ thousandths of a pound. To avoid the use of the fraction $\frac{1}{6}$, add one if result is over 12, and 2 if over 35, and result will be the same.

EXAMPLE:—Reduce 525 pounds, 10s., 6d., to pounds and decimal.

$$\begin{array}{r} \text{£}525 = \text{£}525. \\ 10\text{s.} = .50 \\ 6\text{d.} = .025 \\ \hline \text{Decimal, } \text{£}525.525 \end{array}$$

NOTE.—By multiplying the decimal of any amount in pounds, shillings, and pence so reduced, by the rate per pound, the product will always be the amount in United States money.

To Convert English Money into United States Money.

Reduce the shillings and pence to decimal of pound, as above, then multiply by rate per pound.

EXAMPLE.—To find the equivalent of £525, 10s., 6d., in United States money at rate of \$4.96½ per £.

$$\begin{array}{r} \text{£}525 = \text{£}525. \\ 10\text{s.} = .50 \\ 6\text{d.} = .025 \\ \hline \text{Decimal, } \text{£}525.525 \\ \quad 4.965 = \text{rate} \\ \hline \quad 2627\ 625 \\ \quad 31531\ 50 \\ \quad 472972\ 5 \\ \quad 2102100 \\ \hline \text{Answer, } \$2609231\ 625 \text{ or } \$2,609.23 \end{array}$$

NOTE.—See example on the opposite page converting the same amount of United States money into English money.

To Convert United States Money into English Money.

Divide the amount, dollars and cents, by the rate per (£) pound, Sterling, and the quotient will be the pounds and decimal of pound; multiply the decimal (not the pounds) by 20 (20s. = 1£), and the product will be the shillings and decimal of shillings; multiply the decimal of shillings by 12 (12d. = 1s.), and the result will be the pence and decimal of pence; if decimal of pence is 50 or over, add 1 to pence.

EXAMPLE:—To find the equivalent in English money of \$2,609.23 at rate of \$4.96½ per £.

OPERATION:

$$\begin{array}{r}
 4.965)2609.230(525.5246 \\
 \underline{2482\ 5} \qquad \qquad \qquad 20 \\
 126\ 73 \qquad \text{s. } 10.4920 \\
 \underline{99\ 30} \qquad \qquad \qquad 12 \\
 27\ 43 \qquad \text{d. } 5.8040 \\
 \underline{24\ 825} \\
 1\ 2250 \\
 \underline{9930} \\
 23200 \\
 \underline{19860} \\
 33400 \\
 \underline{29790} \\
 3610
 \end{array}$$

Answer, £525, 10s., 6d.

NOTE.—This example is proof of correctness of preceding example of same amounts.

To Find Interest or Per Cent. on English Money.

First reduce shillings and pence to decimal, see page 204; multiply by rate of interest or per cent.; multiply decimal of that result by 20 (20s. = 1£), and whole number will be shillings; multiply decimal of shillings by 12 (12d. = 1s.), and the product will be pence and decimal of pence.

EXAMPLE—Find interest, 4% on £550, 15s., 11d., one year.

$$\begin{array}{r}
 £550 = £550. \\
 15s. = .75 \\
 11d. = .046 \\
 \hline
 \text{£'s and decimal, } 550.796 \\
 .04\% = \text{rate} \\
 \hline
 £22.03184 \\
 20 \\
 \hline
 s. \ 0.63680 \\
 12 \\
 \hline
 d. \ 7.64160 \quad \text{Answer, } £22, \text{ os., } 8d.
 \end{array}$$

Another Way to Find Interest on English Money.

Point off two figures at right of pounds, shillings, and pence; multiply by rate per cent. or interest; carry to shillings 1 for each 12 pence, and to pounds 1 for each 20 shillings; multiply the decimal of pounds by 20, adding thereto the shillings; and multiply the decimal of that product by 12, adding thereto the pence.

EXAMPLE:—To find 4% of £550, 15s., 11d.

$$\begin{array}{r}
 \text{Pointed off} \quad £5.50 \quad .15s. \quad .11d. \\
 .04\% = \text{rate} \\
 \hline
 £22.03 \quad 3s. \quad 8d. \\
 20 \\
 \hline
 s. \ 0.63 \quad (3s. \text{ added}) \\
 12 \\
 \hline
 d. \ 7.64 \quad (8d. \text{ added})
 \end{array}$$

EXPLANATION. — 44d. = 3s., 8d.; 60s. plus 3s. = 63s. Answer equals £22, os., 8d.

Note that in multiplying decimal of £ by 20 the 3s. is added, and in multiplying decimal by 12 the 8d. is added.

To Find Ad Valorem Duty on Importations, Value Being Expressed in English Money.

Reduce pounds, shillings, and pence to decimal as explained before; multiply by par rate of exchange, \$4.8665; multiply the product by rate of duty, per cent., adding the result to product previously derived by multiplying by rate of exchange.

EXAMPLE:—Value of goods, £550, 15s., 11d.

Import duty, 30%.

	£550	=	£550.	
	15s.	=	.75	
	11d.	=	.046	
Decimal	<hr/>			
	£550.796			
	4.8665			Rate used by
	<hr/>			Custom House, par.
	2753980			
	3304776			
	3304776			
\$2,680.45	4406368			
.30%	2203184			
<hr/>				
\$804.1350 Duty.	\$2,680.4487340	Cost of goods, United		
	804.13	States money, not		
	<hr/>			including duty.
	\$3,484.57	Cost of goods, including		
		duty.		

The legal value of one pound, Sterling (£), in the money of the United States as fixed by Director of Mint is \$4.8665.

GERMAN MONEY.**To Convert German Money into United States Money.****Table of German Money:**

100 Pfennig = 1 Mark.

EXAMPLE:—To find the equivalent of M. 4360.76 in United States money at the rate of $95\frac{1}{2}$ cents for every 4 marks:

$$\begin{array}{r}
 4 \overline{)4360.76} \\
 \underline{1090.19} \\
 .955 \\
 \underline{545095} \\
 545095 \\
 \underline{981171} \\
 \$1041.13145
 \end{array}$$

EXPLANATION.—Divide the total number of marks by 4, as the rate is quoted for 4 marks, multiply the quotient by $.95\frac{1}{2}$ and the result will give the answer.

Another method may be employed, if preferable:

$$\begin{array}{r}
 4 \overline{) .955} \\
 \underline{.23875} \\
 436076 \\
 \underline{143250} \\
 167125 \\
 000000 \\
 143250 \\
 71625 \\
 \underline{95500} \\
 \$1041.1314500
 \end{array}$$

EXPLANATION.—Divide the rate of $.95\frac{1}{2}$, or 4 marks, by 4; the quotient will be the rate for one mark; multiply by the total number of marks and the result will give the answer.

Germany having the decimal monetary system, interest is computed on mark amounts, the same way as on dollar amounts. This applies to all countries having decimal monetary systems.

To Convert United States Money into German Money.

EXAMPLE:—To find the equivalent of \$1041.13 in German money at the rate of 95½ cents for every 4 marks:

$$\begin{array}{r}
 \$1041.13 \\
 \underline{4} \\
 \$.955) \$4164.520 (4360.76 \\
 \underline{3820} \\
 3445 \\
 \underline{2865} \\
 5802 \\
 \underline{5730} \\
 7200 \\
 \underline{6685} \\
 5150 \\
 \underline{5730}
 \end{array}$$

EXPLANATION.—Since the rate quoted is for 4 marks, multiply the dollar amount by 4, and then divide the result by the rate .955, for 4 marks, and the quotient will be the number of marks.

Or secure the same result in the following manner:

$$\begin{array}{r}
 4) .955 \\
 \underline{23875}) \$1041.13000 (4360.76 \\
 95500 \\
 \underline{86130} \\
 71625 \\
 \underline{145050} \\
 143250 \\
 \underline{180000} \\
 167125 \\
 \underline{128750} \\
 143250
 \end{array}$$

EXPLANATION.—Divide .955, rate for 4 marks, by 4; quotient will be rate for 1 mark; then divide the dollar amount, \$1041.13, by .23875, rate for 1 mark; quotient will give the number of marks.

FRENCH MONEY.**To Convert French Money into United States Money.****Table of French Money:**

100 Centimes = 1 Franc.

EXAMPLE:—To find the equivalent of francs 2546.50 in United States money at the rate of 5.15 francs, 5 francs and 15 centimes for every dollar:

$$\begin{array}{r}
 5.15 \overline{)2546.50} (494.47 \\
 \underline{2060} \\
 4865 \\
 \underline{4635} \\
 2300 \\
 \underline{2060} \\
 2400 \\
 \underline{2060} \\
 3400 \\
 \underline{3605}
 \end{array}$$

EXPLANATION.—Since \$1.00 is equal to 5 francs and 15 centimes, francs 2546.50 equal as many dollars as 5.15 is contained in francs 2546.50 or 494.47 dollars.

EXAMPLE:—To find the equivalent of \$494.47 in French money at the rate of 5.15—5 francs and 15 centimes for every dollar:

$$\begin{array}{r}
 494.47 \\
 5.15 \\
 \hline
 247235 \\
 49447 \\
 \hline
 247235 \\
 \hline
 2546.5205
 \end{array}$$

EXPLANATION.—Since 1 dollar is equal to 5 francs 15 centimes, \$494.47 equals 5.15 times this amount or francs 2546.50.

As the rates of foreign exchange covering all other countries are expressed in decimals of a dollar, cents, it is not necessary to give examples illustrating the various conversions, the process in each case being merely multiplication or division, as for example:

SWEDISH MONEY.

Swedish into United States Money.

To find the equivalent of 1960.75 kroner in United States money at the rate of 27 cents per krone:

$$\begin{array}{r}
 \text{Kroner } 1960.75 \\
 \quad .27 \\
 \hline
 1372525 \\
 392150 \\
 \hline
 \$529.4025
 \end{array}$$

United States Money into Swedish Money.

VICE-VERSA OPERATION:—To find the equivalent of \$529.40 in Swedish money at the rate of 27 cents per krone:

$$\begin{array}{r}
 27)529.40(1960.75 \\
 \underline{27} \\
 259 \\
 \underline{243} \\
 164 \\
 \underline{162} \\
 200 \\
 \underline{189} \\
 110 \\
 \underline{135}
 \end{array}$$

Exchange Tables.

As the conversion of the moneys of the various foreign countries into United States money, and vice-versa operations, entail a great deal of clerical work and result in considerable loss of time, "Exchange Tables" have been compiled for the convenience and requirements of the foreign exchange banker, and are universally employed nowadays.

Among the recognized standard works of this nature, mention may be made of the following: Buchan's "Sterling Exchange Tables," published by T. C. King, Chicago; "Tables of German Exchange," published by C. H. Clayton & Co., New York; "French Conversion Tables," by J. W. Barrow, published by C. H. Clayton & Co., New York; "Complete Foreign Exchange Conversion Tables," published by H. K. Brooks, 78 Monroe Street, Chicago.

Especial recommendation is vouched for the "Exchange Tables" by Mr. H. K. Brooks, embracing the moneys of all foreign countries, besides containing much other valuable information.

Mr. Brooks is also the author of an elementary treatise on Foreign Exchange and the Monetary Systems of the world, which we are pleased to recommend.

CHAPTER XXVI.

ARBITRAGE TRANSACTIONS.

THE triangular process of an indirect or circuitous remittance of money from one country to another with different monetary units through the intervening agency of a foreign nation, also on a different monetary basis, as for example, a remittance of money by a New York banker to his London correspondent through the agency of the New York banker's Berlin correspondent, necessitating the conversion of American dollars into German marks, and German marks into English pounds, Sterling, constitutes what is termed an Arbitrage Transaction.

Arbitrations and parities of international exchange will doubtless be found to be one of the most interesting and instructive features relative to foreign exchange, and should not be confounded with Stock Exchange Arbitrations, since in no manner or form are Arbitrations and parities of international exchanges affiliated with Stock Exchange Arbitrations.

Despite the immense amount of credit balances in favor of American banks on the books of their London fellow-bankers, created by the purchase and remittance for credit of bills of exchange on Great Britain, payable in pounds, Sterling, the demand in New York City for bankers' checks on London is so great that American bankers frequently issue checks on London against cash remittances received by their London correspondents from the American bank's European continental banking friends.

Operations of this kind are in fact so frequent that the quotations in New York City for continental exchanges are generally based upon the cost price of pounds, Sterling, laid down in London, through the intermediate agencies of the German, French, Dutch, and Belgian confrères, respectively.

The prominent American banks engaged in the foreign exchange business receive daily telegraphic advices from their correspondents in the various European financial centres, covering the quotations whereat the respective correspondent will sell to the American bank checks for pounds, Sterling, payable in London, for prompt delivery, and for delivery by remittance to London, within, say, fifteen days. The quotation for **prompt delivery** can be applied to remittances that may be forwarded to the London correspondent for account and credit of the American bank by the continental correspondent against **cash credit balances in hand**, whereas the quotation for checks on London, delivery within fifteen days, serves as a basis for purchase of foreign bills of exchange on the day of the receipt of the quotation, since the proceeds of such bills can be utilized in purchasing London checks at the specified quotations, provided such checks are contracted for with the European banker to whom such bills are remitted.

Continental bankers charged in former years a brokerage for purchasing checks on London, including the remittance to London for account of the American banks; in recent years, however, this brokerage has been waived, and the prices submitted nowadays are **net quotations**.

The prices for London checks in the money markets of the financial centres of continental Europe fluctuate between the rates of exchange that gold bullion can be profitably exported and/or imported to and from London and the respective European cities. Such rates signify the "gold or bullion points," and are sub-tabulated in conjunction with the Mint Pars of Exchange for reference:

	Mint Par:	Import Rate:	Export Rate:
Berlin,	marks, 20.43	20.34	20.52
Paris,	francs, 25.22½	25.12½	25.32½
Rotterdam,	florins, 12.10	12.04	12.15

In normal times, the rates for London checks in continental cities register between the export and import rates, but these extreme variations may be considerably deranged, temporarily, in times of extreme disquietude, brought on by wars or other important political events, until the natural law of supply and demand can again assert itself by adjusting and confining the differences in the rates of exchange to points within their usual limits.

The Mint Par of Exchange in the various mentioned financial centres is **midway**, it will be observed, between the export and import or gold point rates.

To illustrate: The extreme difference between the gold point rates for marks, namely, 20.52 and 20.34, in Berlin, is 18 pfennig to the English pound, Sterling; and one-half of such difference, or 9 pfennig, added to the Mint Par for marks of 20.43 gives the export rate for marks of 20.52, and such difference of 9 pfennig deducted from the Mint Par for marks of 20.43 gives the import rate for marks of 20.34.

This difference of 9 pfennig referred to represents the cost of shipping gold bullion between London and Berlin, and is, approximately, one-half per cent., including the charges for brokerage, freight, insurance, and other incidental debit items.

When the rate of exchange for London checks in Berlin declines below the Mint Par rate of 20.43 marks, it is indicative of a tendency to **import** gold from London to Berlin; and

When such rate of exchange advances beyond that quotation the tendency toward **exporting** gold from Berlin to London is expressed.

Many factors cause and control the fluctuations in the quotations for checks on London in the principal European cities, and the following are among the chief ones:

Factors having a tendency to advance prices for checks on London in continental financial centres:

I. Liquidation of loans maturing in London, requiring heavy cash balances created by purchase in the open market of checks on London;

II. Subscriptions to British loans or purchase of securities in the London market necessitating cash remittances in the form of checks on London in payment thereof;

III. Fortnightly settlements on the London Stock Exchange to protect operations in securities dealt in for foreign account by remittance of London checks;

IV. The purchase in the open market of London checks by European continental correspondents of American banking institutions for remittance to London for credit and account of American bankers;

V. A higher rate of interest for money in London than that obtaining on the continent, attracting and inviting deposits of continental bankers with their London agencies or correspondents for employment in the London money market, requiring cash funds in London created by the purchase in the respective countries of checks on London for remittance.

Enumeration follows of the chief

Factors tending to depress prices for checks on London in continental financial centres:

I. Liquidation of loans negotiated by London financiers, maturing with bankers in the several cities on the continent, requiring large credit balances to be held at the disposal of bankers in these respective cities by London banking-houses, available by checks on London to be sold in open continental money markets;

II. Subscriptions by London financiers to European continental national loans, payment therefor to be effected by the sale of checks on London, in the open continental markets, drawn against credit balances created by London financial institutions for that purpose;

III. Fortnightly settlements on the London Stock Exchange, when operations in securities dealt in for foreign account have resulted in credit balances in favor of continental financiers that may be checked against and proceeds realized by sale of London checks in the open market;

IV. The sale of checks on London in the open markets by European correspondents of American banks, issued at the request of and for the credit and account of American banking associations;

V. The withdrawal from London agencies, or London correspondents of European continental banking-houses, of their funds through the issue and sale of checks on London in the open money markets on the continent, when engaged in on a large scale and induced by higher rates of interest for money on the continent than prevailing in England.

Chapter V called attention to the direct factors and conditions influencing fluctuations in exchange rates in the United States; and reference incidentally therein was made to the indirect or circuitous elements having a like tendency.

The present effort will be to fully explain such indirect or circuitous factors: a very large percentage of the foreign bills of exchange drawn upon the various continental European countries, purchased and remitted by American banks to their correspondents in the respective countries, as heretofore explained, are tantamount to purchases of English pounds, Sterling, when the proceeds of such bills are utilized by the continental bankers for buying checks on London for remittance to and credit of the American banks on the books of their London quasi-agents.

These transactions necessitate the conversions of marks, francs, florins, and other foreign moneys, into pounds, Sterling, and the greater the cost of such conversions, or, in other words, the higher the rate of exchange for checks on London in the European continental market, the lower the parity of exchange or value of such continental exchanges in the United States.

To explain: assuming that the selling price for checks on London in Berlin is 20.38 marks for one pound, Sterling, and that American bankers' checks on London can be sold for \$4.86 per pound, Sterling, in the United States, the parity of exchange for checks on Berlin in the United States would be \$.95388 for each four marks, or 23.847 cents per mark, and is found in the following manner: since one pound, Sterling, or \$4.86, costs 20.38 marks in Berlin, the parity of exchange, or value of one mark on Berlin in the United States, would be as much as 20.38 is contained times in \$4.86, or .23847, and four marks, the usual manner of quoting exchange on Germany, four times .23847, or \$.95388.

By a similar operation it will be found, that had the price for checks on London been 20.42 marks, and, although the pound, Sterling, on London was worth the same in the United States, viz: \$4.86, the parity of exchange in the United States for one mark on Berlin would have been only .238, or \$.95201 for four marks, hence it will be seen that

The higher the price for checks on London is in Berlin, the lower the parity or value of Berlin exchange is in the United States; and vice versa.

This principle applies to all continental exchanges; and is the foundation whereon the quotations for checks in marks, francs, florins, and other foreign moneys, are calculated by American bankers.

The prominent New York foreign exchange bankers, who establish the rates for these exchanges in the United States,

are guided in so doing, by computing the parities, or values in the United States, with the aid of cablegrams received every morning—from their correspondents in Berlin, Paris, Rotterdam, and other European cities, quoting the prices for checks on London in their respective markets—in conjunction with the current rate of exchange in New York City for bankers' checks on London, payable in pounds, Sterling, in the manner heretofore explained.

Any material fluctuation in the price for London checks, in the continental financial centres, is immediately advised by cablegram by the respective foreign correspondent, and a commensurate advance or decline recorded in the price for the continental exchange affected thereby in New York City.

An advance or decline in the price for bankers' checks on London in New York City of course affects the prices for continental exchange, even though no fluctuation has taken place in the price for London checks on the continent, since the price for checks on London in New York City is an integral factor.

From the foregoing, the importance of **prompt** telegraphic advices from continental correspondents with respect to quotations for London checks in their respective markets will be readily perceived, as a neglect or delay in advising their American associates of fluctuations may result in loss to the American bank in the following two-fold manner:

First. By selling checks for exchange on the respective country below the adjusted value, in the event of a decline for London checks abroad;

Second. Or by failing to secure by purchase exchange on the respective country, owing to having bid a lower rate therefor than was paid by a competitor, who had advance information of the enhanced value, by virtue of reduction in price for London checks abroad.

The American banker who is not thoroughly posted with respect to fluctuations for London checks in the European continental markets through lack of prompt and efficient service on the part of his foreign correspondents, or the unwise economy of avoiding expense of cablegrams in obtaining this information of paramount importance to him, is not only seriously crippled in completing profitable "Arbitrage Transactions," but is also the constant target for a victim by the numerous foreign exchange brokers representing bankers desirous of buying and / or selling exchange, as the case may be, with previous and full information from their foreign correspondents affecting the value of continental exchanges in this Country.

Bills of exchange, payable in francs, drawn upon the countries of France, Belgium, and Switzerland, are also purchased in America upon the basis of the cost of pounds, Sterling, laid down in the City of London as hereinbefore explained. The conversion of francs into pounds, Sterling, however, is not resorted to as frequently as the process of changing the other continental exchanges into pounds, Sterling, for the reasons:

First. That exports to these countries are not so extensive as to Germany and Holland;

Second. That the demand for bankers' checks on Paris in fact is so great, that the cash credit balances on the books of Parisian correspondents of American banks for checking purposes, are usually augmented by the transfer of funds from the Belgian and Swiss correspondents of American associations in banking at the current rate of exchange for bankers' checks on Paris in Belgium and Switzerland, and, for this reason, bills drawn upon these countries are frequently purchased by American bankers upon the basis of francs laid down in Paris, instead of upon the basis of pounds, Sterling.

The demand in America for bankers' checks on Paris is

occasioned not only for payment of merchandise imported into the United States from France, but also for the liquidation of loans negotiated by American financiers through the issuance of Finance Bills drawn upon their Parisian confrères.

Despite the foregoing facts, there are times when the American bankers instruct their Paris banking-houses to transfer funds in their hands to their London representatives, necessitating the conversion of francs into pounds, Sterling, and the cost of this Arbitrage Transaction, or, rather, the parity of exchange in New York for Paris cheques, is determined in the manner following:

Assume as the basis of an operation of this nature that bankers' checks on London, payable in pounds, Sterling, can be sold in New York City at \$4.86 per pound, Sterling, and that checks on London can be purchased in Paris for 25.18 francs per pound, Sterling. Now, since 25.18 francs are the equivalent of one pound, Sterling, or \$4.86, one franc would be worth in the United States as much as 25.18 is contained times in \$4.86, or .19301, and as French exchange is expressed in the amount of francs that one dollar will purchase, proceed to divide one dollar by .19301, giving the quotation of 5.1811, approximately 5.18 $\frac{1}{8}$, or the parity of exchange for bankers' cheques on Paris in America.

The subject of the conversion of bills of exchange, drawn upon Holland, into the English pound, Sterling, follows, and in this connection it may be stated that Arbitrage Transactions, involving United States, Dutch, and English moneys, are probably more frequently resorted to than any other Arbitrage operations.

The Holland Account referred to the large volume of American products exported to Holland for re-shipment by Dutch merchants to the other European countries, and in consequence bills of exchange, aggregating large sums of

money drawn upon Holland, payable in florins or guilders, are offered for sale to American bankers. The balances, created on the books of the Dutch bankers in favor of their American friends by the remittance of such bills, vastly exceed the requirements for checking purposes, and such surplus funds are transferred to the London correspondents of the American banking-houses by the Dutch bankers.

The regularity and immensity of transactions of this type naturally create a broad market in Rotterdam and Amsterdam for checks on London; and the prices therefor, together with the rate for bankers' checks on London in New York City, furnish the fundamental basis to determine the parity of exchange for checks on Holland in the United States whereon Dutch bills are purchased by American banking associations.

The method of procedure to ascertain such parity is identical with that whereby the parities for checks on Germany and France were arrived at, and is confirmed by the annexed illustration:

Consider that bankers' checks for the purpose at issue on London are quoted at \$4.86 per pound, Sterling, in New York City, and florins at $12.07\frac{1}{4}$ in Rotterdam. Since $12.07\frac{1}{4}$ florins will purchase one pound, Sterling, draft on London in Rotterdam, worth \$4.86 in the United States, the value, or parity of exchange, of one florin in America would be as much as 12.0725 is contained times in \$4.86, or 40.256, approximately $40\frac{1}{4}$ cents.

The fact should be remembered that all of the foregoing illustrations merely serve to demonstrate the manner whereby New York parities of exchange for checks on Germany, France, and Holland were obtained, and the American banker purchasing such exchange should deduct whatever percentage of profit may be desired from the parity, in buying bills of exchange on the respective countries when based upon Arbitrage Transactions.

The conclusion does not necessarily always follow, that the profit or advantage is greater to the American banker by the conversion of bills of exchange, drawn upon Germany, France, or Holland, into pounds, Sterling, through remittance of proceeds to his London correspondent. Were this the case, bankers would never sell their checks on these countries, but instead would convert them into pounds, Sterling, whereas, as a matter of fact, large credit balances are usually held by the German and French associates of American banks to protect American checks drawn upon and payable there.

There are diversified reasons why checks, drawn upon and payable in the money of the respective countries on the continent, may at times be sold at prices in the United States in excess of the parities of exchange, or in other words, at a higher price than checks on London, drawn against funds created through Arbitrage Transactions, based upon current quotations for exchanges entering into the operation.

To explain: rates of exchange, for instance, on bankers' London checks in Germany, are frequently contracted for by American bankers through their Berlin or Hamburg representative months in advance for reasons to be explained further on, and should such rates prove **lower**, in due course, than current quotations, the American banker having contracted for such rates can, as a result thereof, afford to pay a slight premium over the parity of exchange and still clear a profit on the transaction.

Illustration: had an American banker secured a round amount of Sterling checks in Germany, on some previous date, at the rate of 20.36 marks, it follows that the American banker could afford to pay a **higher** rate for checks on Germany than the parity of exchange, namely, 95.388, based upon the quotations of 20.38 marks and \$4.86 in the example submitted.

While the practice of securing in advance, the rates of

exchange for Sterling checks in Germany, just-mentioned, may appear speculative, the object accomplished thereby as a matter of fact, in many cases, is conservative, and may be characterized as good and safe banking.

To cite one instance: referring to Chapter IX, devoted to "Foreign Bills of Exchange Bought and Sold for Future Delivery," when a conservative and not a speculative practice, the text reads that American bankers frequently buy and sell foreign exchange for future delivery. Assume such operations contracted for, the purchase of bills of exchange in marks on Germany, and the sale of Sterling checks on London.

The American banker—instead of protecting himself against possible loss on those transactions by selling his checks on Germany and buying Sterling checks on London for the same future dates of delivery as an offset—frequently conserves himself from loss by obtaining telegraphic offers from his German correspondent for quotations of checks on London in the equivalent amount of Sterling, deliverable on like future dates, and his acceptance by cablegram closes the contract therefor, provided, of course, the rate submitted is favorable, and the transaction can be terminated in this manner on a profitable basis.

In this case, suppose the American banker had contracted for the delivery in Germany of checks on London at a specified rate and future date, remittance would necessarily follow, in due course, of the bills of exchange, payable in marks, to his German correspondent, and the proceeds thereof would be applied to the purchase of the checks on London previously contracted for; the American banker would request his German correspondent to forward the London checks for account and credit of the American bank to the London banking-house; then the American banker would draw his own check, payable in London, in pounds, Sterling, previously sold for future delivery, and in so doing terminate the entire transaction.

The American foreign exchange banker—having computed the parities of the various international exchanges at the beginning of each day's business, based on quotations received by him every morning from his foreign correspondents—is in a position to determine, and in consequence decides, whether a better profit would accrue from selling his checks, drawn upon his continental correspondents at the current rate of exchange, or by converting his continental exchanges into pounds, Sterling, as explained heretofore, and issue and sell there against his American drafts on London.

The scope of Arbitrage Transactions is most extended,* and embraces also the conversions of

Florins or guilders into marks;

Florins or guilders into francs; and

Francs into marks; and vice-versa operations;

all, though less frequently employed, are effected in precisely the same manner as the conversions of marks, francs, and florins into pounds, Sterling.

* “Arbitrations and Parities of Foreign Exchange,” from the pen of Mr. C. A. Stern of New York City, will be found a great aid and convenience in Arbitrage Transactions; and comprises conversion tables, respectively of Sterling into francs, reichsmark, and guilders; guilders into reichsmark, and francs; francs into guilders, and reichsmark; and reichsmark into guilders, and francs.

The following authorities are printed in the French language, and covering the subject-matter of Arbitrations in a most thorough and exhaustive manner are of especial value and interest:

“Arbitrages and Parités” by Ottomar Haupt (Effingham, Wilson & Co., London); and

“Arbitrages, Banknotes et Monnaies” by E. Kauffmann (Credit Lyonnais, Paris).

Summary.

A clear understanding is absolutely necessary of the factors and principles involved in solving the Arbitrage Transactions submitted; and the first principles having been mastered, other operations of a similar nature, although expressed in different rates of exchange, conforming to market quotations, should not occasion any great difficulty.

To present other examples: the determining of the parities of exchange in America for checks on Germany, France, and Holland, based upon the prices for checks on London in these respective countries in conjunction with the price for London checks in New York City, confined within the limits of the maximum range between the subjoined gold and bullion points:

Checks on London in		Import Rate:	Export Rate:
Germany,	- -	marks, 20.34	20.52
France,	- - -	francs, 25.12½	25.32½
Holland,	- -	florins, 12.04	12.15
United States,	- -	dollars, 4.84	4.90

To conclude: Arbitrage Transactions embrace a tri-national base, especially interesting and most profitable to the American banker; and their bi-international financial conversions and tri-international banking relations present inviting and absorbing operations in the moneys and affairs of three separate and distinct nations; and their efficient execution demands the best resources of the human mind taxed with their multitude of details, and the far-seeing vision of the principal national money markets and international conditions imperative in **Arbitrageurs** coupled with a life-long training in international exchange.

CHAPTER XXVII.

GOLD EXPORTS AND IMPORTS.

THE chapters on "London Agencies of European Continental Institutions," on the European accounts, one and all, and on Arbitrations, have reflected evidence that London is the monetary centre of the commercial world, and in that capacity discharges the functions of a general clearing-house for international transactions.

It naturally follows that international trade balances must necessarily be adjusted with the financiers in the English metropolis, and by reason thereof, the subject of "Gold Exports and Imports" will include and be confined to the direct movements of the precious metal to and from both England and the United States.

Bills of exchange, owing to their peculiar advantages with respect to both safety and convenience, provide the best agencies for liquidating debts between nations, and these drafts are always employed unless the rates for foreign exchanges are prohibitive, and then international liquidation is effected by the payment of the requisite amount in gold coin or bullion.

The chief factor, fully presented in an early chapter, influencing the rates for foreign exchanges, is the supply and demand; and in a large measure such supply and demand are based upon exports and imports of commodities.

The exportations of American products always assume their largest proportions during the fall months of the year, and are caused by the heavy shipments then of cotton, grain and other cereals, and in conjunction with the usually high rates of interest, caused by the demand for money to move the crops, create a tendency to establish international trade balances in favor of the United States.

In explanation of a relatively high interest rate for money in the United States as compared with European financial centres, ordinarily such rate is conducive to and constitutes one of the factors that build up the invisible international trade credit balance of the United States of America. Such condition, however, produces the above effect only **temporarily**, that is, during the currency of the finance bills, since their ultimate liquidation has just the **opposite** effect more particularly shown on a succeeding page of the present Chapter.

Loans, represented by finance bills, and their ultimate liquidation as an offset are not of course permanent factors creating the international balance, but as the issuance of these bills materially affects the rates for foreign exchanges, thereby indirectly influencing the movements of gold to and from the United States and Europe, mention must necessarily be made of loans as temporary factors.

Assertion may in a broad sense be made that under normal conditions the rates for foreign exchange during the spring favor **export** movements of gold, and the rates during the fall months tend toward its **importation**.

The official statistics of Gold Exports and Imports disclose that the preceding natural conditions do not always prevail; indeed, the figures show the very opposite movements of the yellow metal at certain times, and such proof is conclusive that other factors besides exports and imports of commodities enter into the causes that regulate the value of foreign exchanges.

These other factors are **not** tabulated by the Bureau of Statistics at Washington since their proportions are unknown to the American government officials, and these silent factors are constantly at work building up what is generally termed the **invisible balance** in international trade relations.

To chronicle the various elements going to make up this invisible balance, mention may be made as follows of those

Against the United States:

I. The enormous amount of money annually expended by American tourists, while sojourning in European countries, to defray traveling expenses;

II. The liquidation of secured and unsecured loans negotiated by American bankers in England and continental Europe;

III. The purchase by American banking institutions, other corporations, or individuals, of securities, or other properties, in the money markets of European countries;

IV. The payment of interest and/or dividends on American securities and properties owned by and so long as title thereto is vested in European capitalists, whether such investments are actually held abroad, or retained in the United States;

V. Passenger and freight rates for the cost of ocean voyages and transportation paid by Americans to European steamship and vessel owners, respectively; and

VI. Remittances by persons within the United States to their trans-Atlantic friends and relatives.

The annexed factors tend to create invisible trade balances

In Favor of the United States:

I. Loans and renewals thereof, representing money borrowed by American banking institutions, other corporations, or individuals, of European bankers or capitalists, creating only a temporary international balance in favor of the United States till liquidation of loan at maturity;

II. Expenditures by foreigners while traveling in the United States for individual expenses;

III. The purchase of American securities or properties in the American money markets by European investors;

IV. The payment of interest and/or dividends on European securities or properties owned by Americans; and

V. The remittances to emigrants in the United States from European countries.

The factors comprising the invisible balance against the United States generally vastly exceed in amount those constituting the balance in favor of the United States; and therefore the net invisible balance is usually an international debit balance of large amount. This explains the reason why—although international trade balances computed to be in favor of the United States (or credit balances) by the figures tabulated on the basis of exports and imports by the Government officials—the rates for foreign exchanges at times have been unfavorable to this Country, resulting in large shipments of gold from the American States to Europe.

The Mint Par of Exchange for one pound, Sterling, or the English sovereign, is \$4.8666+ in the United States.

The cost of shipping gold to and from New York City and London is approximately one-half per cent., or $2\frac{43}{100}$ cents per pound, Sterling, including the charges for freight, insurance, brokerage, interest, and other petty incidental expenses. This would make the export rate \$4.8908, and the import rate \$4.8422; as a matter of fact, however, the gold or bullion points can not be accurately fixed inasmuch as the several charges for transportation and interest vary and other contingencies arise affecting the prices whereat gold can be profitably exported or imported.

The quotations of \$4.90 and \$4.84 for the English pound, Sterling, ordinarily, however, express the export and import points, respectively.

In other words, when checks on London are selling in New York City at the rate of \$4.90 per pound, Sterling, American bankers having to pay large amounts in London, find it equally or more profitable to liquidate obligations by the shipment of gold, instead of by remittance of a check on London; and when, on the other hand, amounts are due

American bankers by London banks, the American financiers find it equally or more profitable to have the gold shipped to them from London instead of selling their checks upon the London bankers in the open market at the low rate of exchange.

Were the sole factors, to be considered in determining the export and import rates of exchange (gold points), the actual charges incurred in the shipment of gold to and from the United States and Great Britain, the fixing of these rates would of course be an easy matter; the case is otherwise.

The profitable importation of gold is dependent upon the selling price of gold coins or bullion in London, and is controlled by the action of the Bank of England; although orders for purchases and sales of the metal are usually executed by London bullion dealers.

The Bank of England lowers or raises the price of gold according to the condition of its reserves; and its treasury usually contains a supply of United States coin. The average selling price therefor would be about 76 shillings, 4 pence, per ounce, that is not quite the United States equivalent of the value of United States gold, standard fineness, 900 thousandths fine, of one ounce worth \$18.60½ in the United States. Pure gold per ounce in England brings 84 shillings, 11.45 pence, and pure gold per ounce in the United States \$20.672.

When therefore the Bank of England raises the price for gold, the cost of importing gold from England to the United States will be commensurably **increased**, and an adjustment of the rates of exchange must follow before shipments can be profitably undertaken.

Exportations and importations of gold are frequently accomplished through the shipment of what is known as commercial gold bars, ranging in fineness from 990 to 998½ thousandths fine, the gross weight and fineness being stamped on each bar.

Commercial gold bars may be obtained from the United States Mint by paying therefor the equivalent value in United States gold coin plus a charge of 4 cents per each \$100.

Gold coin can always be had at the United States sub-treasury in exchange for gold certificates or legal tender notes, and no difficulty, or obstacle, is encountered by shippers in securing requisite tender for gold bars for export. With the shippers, it is optional of course to procure either United States gold coin or commercial gold bars for export, but since the loss by abrasion of coined pieces practically offsets the small charge exacted by the Government for gold bars, these bars are usually preferred by shippers.

English sovereigns, coined in gold of 916⅔ thousandths fine, may also be employed for export and import purposes, but their use is not frequent.

The approximate one-half per cent., representing the cost of transmitting gold to and from England and the United States, naturally precludes a more frequent interchange of gold shipments between the two countries. The margin of about one per cent. between the export and import rates is quite adequate to permit of active play in the fluctuations in rates for foreign exchanges, all dependent, more or less, on the price for Sterling exchange as heretofore mentioned.

Since the extreme variations for prices of international exchanges are necessarily confined to and are within the gold or bullion points expressing the rates whereby gold can be

advantageously transported from one country to another, the possible **maximum loss**, that dealers in foreign exchange may sustain, is thereby limited, as just recited, to approximately one per cent., being a risk much less than merchants in other pursuits of trade are obliged to assume.

CHAPTER XXVIII.*

MONETARY UNITS AND MONEYS OF ALL THE COUNTRIES OF THE WORLD.

THE general information given under this Chapter will be found very complete and of especial value for reference.

The values of the gold and silver coins as herein given were necessarily obtained from various statistics and publications as compiled by Mr. Howard K. Brooks of Chicago, and, while believed to be sufficiently accurate for general information, are not intended for use in commercial transactions, since in some countries the values of gold and silver coins fluctuate.

These values are not home value or market value of the coins, but are intended to be the actual mint value based upon the weight and fineness of the metals contained therein, at the present price of gold and silver bullion except where otherwise stated.

For revised valuations, compiled under date of April 1, 1908. see concluding pages of this Chapter.

The Value of Foreign Coins.

The actual or real value of gold and silver coins depends upon the quantity of pure metal contained therein, and their weight and fineness. Nearly all the coins contain alloy or inferior metal to increase their durability. In international transactions, the weight of the pure metal is alone considered, not the number or denominations expressed on the coins.

The weight and fineness of coins of same denominations vary in different countries, hence they are of different value or worth. The purchasing power of the silver dollar in the United States within that Country is as great for small sums

* By permission from "Foreign Exchange," by Mr. Howard K. Brooks.

as the gold dollar, but in other countries it would only be accepted for its bullion value. The Mexican dollar, passed for its face value in Mexico, is worth only about fifty cents in the United States.

Therefore, in expressing the value of coins of foreign countries in the money of the United States, the task has been to estimate their present **actual** value based upon the present coining rate in the United States. Their **home** value is, of course, much greater and their **market** value may be more or less, according to conditions.

EUROPE.

Andorra.

A small Republic near the boundary line between France and Spain; area, 175 square miles; population, 6000; principal city and its population, Andorra, 600.

This Country has no coinage of its own, and uses principally the money of France and Spain. Very little money is required.

Drafts should be drawn in francs.

Austria-Hungary.

An Empire; area, 264,512 square miles; population, 42,694,900; principal cities and population: Vienna (capital), 1,535,000; Budapest, 582,000; Prague, 370,000; Trieste, 168,000; Lemberg, 132,000; Brünn, 96,000; Graz, 115,000; Szegedin, 88,000; Vászárhely, 60,000; Krakau, 80,000.

Unit, new system—Krone or Crown = 100 Heller;

Unit, old system—Florin or Guilder = 100 Kreutzers.

Gold Coins and Value:—Quadruple Ducat, \$9.16; Ducat, \$2.29; Sovereign, \$6.76; Half-Sovereign, \$3.37; Double Ducat, \$4.60; 8-Florin, \$3.86; 4-Florin, \$1.93; 20-Crown or Krone, \$4.052; 10-Crown or Krone, \$2.026; Florin or Guilder, 48.2 cents.

Silver Coins and Value:—Maria Theresa Thaler, 51 cents; Crown Thaler, 55 cents; Specie Thaler, 36 cents; Vereins Thaler, 36 cents; 2 Florins, 92.4 cents; Florin, 46.2 cents; Gulden, 46 cents; Crown, 17.4 cents; Half Crown, 8.5 cents.

Minor Coins:—20 and 10 Heller of nickel, worth, nominally, 4 and 2 cents, respectively, and 2 and 1 Heller of bronze, worth, nominally, 2/10ths and 1/10 of a cent, respectively.

Bank Notes:—1, 5, 10, 50, 100, 500, and 1000 Florins or Guldens.

The new unit system dates from 1892. The new Krone is equal to one-half the Florin of the old system. The value of the Gold Crown or Krone in United States money is 20.3 cents, and of the Silver Crown 17.4 cents, at United States coining rate. During the exchange from the old to the new system, the old coins are accepted on the basis of 1 Florin for 2 Crowns, 1 Kreutzer for 2 Hellers.

Drafts should be drawn in Kroner.

Belgium.

A Kingdom. One of the most densely populated countries of the world; area, 11,400 square miles; population, 6,236,000; principal cities and population: Brussels (capital), 525,000; Antwerp, 260,000; Ghent, 160,000; Liege, 162,000.

Unit—Franc = 100 Centimes.

Gold Coins and Value:—100 Francs, \$19.30; 50 Francs, \$9.65; 20 Francs, \$3.86; 10 Francs, \$1.93. The value of the Gold Franc is \$19.3, actual.

Silver Coins and Value:—5 Francs, 93.5 cents; 2 Francs, 34.7 cents; 50 Centimes, 8.7 cents; 20 Centimes, 3.5 cents. The value of the Silver Franc is 17.4 cents actual, except the 5-Franc piece, which is of greater fineness.

Minor Coins:—20, 10, and 5-Centime pieces of nickel and 2 and 1-Centime pieces of bronze.

Paper Money:—Bank Notes, issued by the National Bank of Belgium, of 20, 50, 100, 500, and 1000 Francs.

Drafts should be drawn in Francs.

Bulgaria.

A tributary Principality of Turkey, situated on the Black Sea; area, 38,562 square miles; population, 3,400,000; principal cities and population: Sofia (capital), 47,000; Philippopolis, 36,000; Rustchuk, 28,000; Varna, 28,000.

Unit—Lew=100 Stotinki.

Gold Coins and Value:—50 Lew, \$9.65; 20 Lew, \$3.86; 10 Lew, \$1.93; 5 Lew, 96.5; the value of the Gold Lew is 19.3 cts.

Silver Coins and Value:—2 Lew, 34.7 cents; 1 Lew, 17.4 cents; 50 Stotinki, 8.7 cents; 20 Stotinki, 3.5 cents; the value of the Silver Lew is 17.4 cents.

Minor Coins:—20, 10, 5, and 2½ pieces of nickel.

Paper Money:—Notes issued by the National Bank of Bulgaria, and those of the Imperial Ottoman Bank in various denominations.

This Country has practically the same monetary system as France, with coins of like value with different names.

Drafts should be drawn in Francs, Pounds Sterling, or Marks.

Denmark.

A Kingdom, situated just north of Germany on the North Sea; area, 15,300 square miles; population, 2,186,000; principal cities and population: Copenhagen (capital), 380,000; Aarhus, 35,000; Odense, 32,000.

Unit—Krone=100 Ores.

Gold Coins and Value:—20 Kroner, \$5.36; 10 Kroner, \$2.68; Double Christian d'Or, 7.98; Christian d'Or, \$3.94; Double Fredericks d'Or, \$7.88; Fredericks d'Or, \$3.94; Ducat, \$2.24; the value of the Gold Crown or Krone is 26.8 cents.

Silver Coins and Value:—2 Crowns, 49.9 cents; 1 Crown, 24.9 cents; Half Crown, 50 Ores, 12 cents; 40 Ores, 9 cents.

Minor Coins:—5, 2, and 1 Ore pieces of bronze; 1 Ore is nominally worth $\frac{1}{4}$ of a cent.

Paper Money:—Bank Notes issued by the National Bank of Denmark in denominations of 1, 5, 10, 100, 500, and 1000 Kroner or Crowns.

The coins and paper money of this State circulate freely in Norway and Sweden.

Drafts should be drawn in Kroner.

England—See Great Britain.

Finland.

A Grand Duchy; area and population are included in figures of Russia; principal cities and population: Helsingfors, 8000; Bjorneborg, 10,000; Uleaborg, 12,000; Viborg, or Wiborg, 20,000; Abo, 31,000; Nikolaief, 92,000.

Unit—Finmark=100 Penni.

Gold Coins and Value:—50 Finmarks, \$9.65; 20 Finmarks, \$3.86; 10 Finmarks, \$1.93.

Silver Coins and Value:—5 Finmarks, 93.5 cents; 2 Finmarks, 34.7 cents; 1 Finmark, 17.3 cents; 50 Penni, 8.7 cents; 25 Penni, 4.3 cents.

Minor Coins:—10 and 5 Penni of bronze.

Russian money is in general circulation.

Drafts should be drawn in Finmarks.

France.

A Republic; area, 204,100 square miles; population, 38,343,200; principal cities and population: Paris, capital, 2,512,000; Lyons, 438,000; Marseilles, 405,000; Bordeaux, 255,000; Lille, 205,000; Toulouse, 156,000; St. Etienne, 135,000; Nantes, 125,000; Havre, 118,000; Reims, 104,000; Roubaix, 115,000.

Unit—Franc=100 Centimes.

Gold Coins and Value:—100 Francs, \$19.30; 50 Francs, \$9.65; 20 Francs, \$3.86; 10 Francs, \$1.93; 5 Francs, 96.5 cents; Louis d'Or, \$4.50.

Silver Coins and Value:—5 Francs, 93.5 cents; 2 Francs, 34.7 cents; 1 Franc, 17.4 cents; 50 Centimes, 8.7 cents; 20 Centimes, 3.5 cents.

Minor Coins:—10 and 5 Centime pieces of bronze. Coins of 2 and 1 Centime pieces of bronze are also coined but are not in general circulation.

Paper Money:—Notes issued by the Bank of France in denominations of 25, 50, 100, 500, and 1,000 Francs.

The Gold Franc is worth 19.3 cents, and the Silver Franc, owing to its reduced fineness, only 17.4 cents.

Drafts should be drawn in Francs.

Germany.

An Empire; area, 211,168 square miles; population, 52,400,000; principal cities and population: Berlin, capital, 1,734,000; Munich, 408,000; Hamburg, 682,000; Leipzig, 395,000; Cologne, 330,000; Dresden, 334,000; Madgeburg, 242,000; Frankfort, 230,000; Hanover, 210,000; Breslau, 375,000; Bremen, 196,000; Königsberg, East Prussia, 176,000; Stuttgart, 160,000.

Unit—Reichs-Mark=100 Pfennig.

Gold Coins and Value:—20 Marks, \$4.76; 10 Marks, \$2.38; 5 Marks, \$1.19.

Silver Coins and Value:—5 Marks, \$1.04; 2 Marks, 41.6 cents; 1 Mark, 20.8 cents; 50 Pfennig, 10.4 cents; 20 Pfennig, 4.2 cents; 1 Thaler, 71.4 cents; 2 Thalers, \$1.41.

Minor Coins:—10 and 5 Pfennig of nickel and 2 and 1 Pfennig of bronze, also a 20 Pfennig piece of nickel.

Paper Money:—Bank notes in denominations of 5, 10, 20, 50, 100, 500, and 1000 Marks, and Government Notes of 5, 10, and 20 Marks.

Drafts should be drawn in Marks.

Gibraltar.

A British Colony; situated on the extreme southern coast of Spain at the entrance to the Mediterranean Sea; no data as to area or population; principal city, Gibraltar.

This Country still uses the Spanish monetary system, regardless of numerous attempts to inaugurate the British system.

England, however, furnished bronze pieces which are accepted at 48 to the 5 Peseta piece of Spain. British money is not refused. The Anglo-Egyptian Bank has a branch office here.

Drafts should be drawn in Pounds, Sterling.

Great Britain.

Comprises England, Ireland, Scotland and Wales; Kingdom; area, 120,980 square miles; population, 42,000,000.

England.

Principal cities and population: London, capital, 4,422,000; Liverpool, 633,000; Manchester, 530,000; Birmingham, 501,000; Leeds, 402,000; Sheffield, 347,000; Bristol, 334,000; Bradford, 229,000; Nottingham, 230,000; Hull, 220,000; Salford, 211,000; New Castle, 212,000; Leicester, 200,000; Portsmouth, 179,000; Oldham, 138,000.

Ireland.

Belfast, 358,000; Cork, 76,000; Dublin, capital, 362,000.

Scotland.

Aberdeen, 125,000; Dundee, 165,000; Edinburgh, capital, 285,000; Glasgow, 710,000.

Unit—Sovereign or Pound=20 Shillings.

12 Pence=1 Shilling.

4 Farthings=1 Penny.

Gold Coins and Value:—5 Sovereigns, \$24.33; Double Sovereign, \$9.73; Sovereign or Pound, \$4.866; Half Sovereign, \$2.433; 5 Guineas, \$25.55; 2 Guineas, \$10.22; Guinea, 21 Shillings, \$5.11; Half Guinea, \$2.55.

Silver Coins and Value:—Crown, 5 Shillings, \$1.087; Double Florin, 97 cents; Half Crown, 54.4 cents; Florin, 43.5 cents; Shilling, 21.7 cents; Sixpence, 10.8 cents; Fourpence, 7.2 cents; Threepence, 5.4 cents; Twopence, 3.6 cents; Penny, 1.8 cents.

The 4, 2, and 1 Penny pieces are not in general circulation.

Minor Coins:—Pence, Half Pence, and Farthings of bronze. A Farthing equals about half of 1 cent, United States money.

Bank Notes of 1, 5, 10, 20, 50, 100, 200, 300, 500 and 1,000 Pounds.

The nominal value of the Shilling is $24\frac{1}{3}$ cents, and the Penny, $2\frac{1}{26}$ cents.

Drafts should be drawn in Pounds Sterling.

Greece.

A Kingdom; situated on the Mediterranean Sea; area, 25,041 square miles; population, 2,187,200; principal cities and population: Athens, capital, 150,000; Piraeus, 36,000; Patras, 36,000.

Unit—Drachma=100 Lepta.

Gold Coins and Value:—100 Drachmas, \$19.30; 50 Drachmas, \$9.65; 20 Drachmas, \$3.86; 10 Drachmas, \$1.93; 5 Drachmas, 96.4 cents.

Silver Coins and Value:—5 Drachmas, 93.5 cents; 2 Drachmas, 34.7 cents; 1 Drachma, 17.4 cents; 50 Lepta, 8.7 cents; 25 Lepta, 4.3 cents.

Minor Coins:—20, 10, and 5 Lepta of nickel.

Notes issued by three banks of various denominations.

Drafts should be drawn in Francs, unless desired in Pounds Sterling or Marks.

Holland.

Same as the Netherlands. See Netherlands.

Ireland—See Great Britain.

Italy.

A Kingdom; area, 111,100 square miles; population, 28,500,000; principal cities and population: Rome, capital, 475,000; Naples, 525,000; Milan, 436,000; Turin, 348,000; Genoa, 220,000; Florence, 205,000; Venice, 166,000; Bologna, 150,000.

Unit—Lira=100 Centesimi.

Gold Coins and Value:—100 Lire, \$19.30; 50 Lire, \$9.65; 20 Lire, \$3.86; 10 Lire, \$1.93; 5 Lire, 96 cents.

Silver Coins and Value:—5 Lire, 93.5 cents; 2 Lire, 34.7 cents; 1 Lire, 17.4 cents; 50 Centesimi, 8.7 cents; 20 Centesimi, 3.5 cents.

Minor Coins:—10, 5, 2, and 1 Centesimi pieces of bronze.

Paper Money:—Bank Notes in denominations of 5, 10, 20, 50, 100, 250, 500, and 1000 Lire.

It will be noted that the money of this Country is the same as that of France, but has a different name.

Drafts should be drawn in Lire.

Monaco.

A small Principality; situated on the southern coast of France on the Mediterranean Sea; area, 8 square miles; population, 13,300; principal cities and population: Monaco, 5000; Monte Carlo, 4000.

Monte Carlo is especially noted as a resort for gambling.

The moneys of England, France and Germany circulate, as well as the moneys of other European countries.

Drafts should be drawn in Francs.

The Netherlands.

Same as Holland: a Kingdom; area, 12,648 square miles; population, 4,733,000; principal cities and population: The Hague, capital, 190,000; Amsterdam, 490,000; Rotterdam, 280,000; Utrecht, 90,000; Gröningen, 60,000; Haarlem, 55,000; Leyden, 45,000.

Unit—Florin or Guilder=100 Cents.

Gold Coins and Value:—10 Guilders or Florins, \$4.02; 5 Guilders, \$2.01; Double Ducat, \$4.56; Ducat, \$2.28.

Silver Coins and Value:—Rix-Daler, 2½ Florins, 52 cents; Florin, 20.8 cents; Half Florin, 10.4 cents; 25 Cents, 5.5 cents; 10 Cents, 3.7 cents; 5 Cents, 1.8 cents.

Minor Coins:—2½, 1, and ½ Cent pieces of copper.

Paper Money:—Issued by the Government and banks in denominations of 25, 40, 60, 100, 200, 300, and 1000 Florins.

The terms Florin, Gulden and Guilder are simply different national translations of the name of the same coin.

Drafts should be drawn in Guilders.

Norway.

A Kingdom; one of the Scandinavian countries; area, 124,445 square miles; population, 2,000,000; principal cities and population: Christiania, capital, 150,000; Bergen, 60,000; Trondhjem, 26,000; Stavanger, 25,000; Drammen, 22,000.

Unit—Krone or Crown=100 Ores.

Gold Coins and Value:—20 Crowns, \$5.36; 10 Crowns, \$2.68; Double Christian d'Or, \$7.88; Christian d'Or, 3.94; Ducat, \$2.24.

Silver Coins and Value:—2 Crowns, 49.9 cents; 1 Crown, 29.9 cents; Half Krone, 50 Ores, 12 cents; 40 Ores, 9 cents; 20 Ores, 4 cents; 10 Ores, 2 cents.

Minor Coins:—5, 2, and 1 Ore pieces of bronze; the 1 Ore piece is worth nominally ¼ of a cent.

Paper Money:—Notes issued by banks in denominations of 1, 5, 10, 50, 100, 500, and 1000 Kroner or Crowns.

Drafts should be drawn in Kroner.

Portugal.

A Kingdom; area, 34,038 square miles; population, 4,708,000; principal cities and population: Lisbon, capital, 358,000; Oporto, 140,000; Braga, 23,000.

Unit—Milreis=1000 Reis.

Gold Coins and Value:—10 Milreis or Coroa, \$10.80; 5 Milreis, or Half Coroa, \$5.40; 2 Milreis or 1/5 Coroa, \$2.16; 1 Milreis or 1/20 Coroa, \$1.08.

Silver Coins and Value:—500 Reis, 47.6 cents; 200 Reis, 19 cents; 100 Reis or Testoon, 9.5 cents; 50 Reis, 4.8 cents.

Minor Coins:—40, 20, 10, 5, and 3 Reis of bronze; the 5 Reis piece is worth nominally 1/2 of 1 cent.

Paper Money:—Notes issued by eight banks, the Bank of Portugal is the principal one, of various denominations.

It is the practice in Portugal to count large sums in Contos or thousands of Milreis, thus 100 Contos=100,000 Milreis.

The Sovereign or Pound Sterling of Great Britain passes current, as does also the gold coins of other nations.

Drafts should be drawn in Sterling, Francs, or Marks.

Roumania.

A Kingdom; area, 34,100 square miles; population, 4,709,000; principal cities and population: Bucharest, capital, 232,000; Jassy, 90,000; Botoshani, 40,000; Galatz, 81,000; Crajova, 30,000; Ploesti, 34,000.

Unit Leu=100 Bani.

Gold Coins and Value:—50 Lei, \$9.65; 20 Lei, \$3.86; 10 Lei, \$1.93; 5 Lei, 96.5 cents.

Silver Coins and Value:—5 Lei, 87 cents; 2 Lei, 34.8 cents; 1 Leu, 17.4 cents; 50 Bani, 8.7 cents; 20 Bani, 3.5 cents.

Minor Coins:—10 and 5 Bani pieces of bronze.

Notes issued by National Bank in various denominations.

This Country has practically the same monetary system as France, with coins of same value, under different names.

Drafts should be drawn in Lei, Francs, Sterling, or Marks.

Russia.

(Europe and Asia). An Empire; area, 8,660,280 square miles; population, 129,240,000; principal cities and population: St. Petersburg, capital, 1,267,000; Moscow, 988,000; Warsaw, 615,000; Odessa, 404,600; Riga, 283,000; Kharkoff, 196,000; Kazan, 138,000; Kiev, 248,750; Lodz, 314,700; Vilna, 160,000.

Unit—Ruble=100 Copecks.

Gold Coins and Value:—Imperial, old, 15 Rubles, \$7.72; Half Imperial, old, $7\frac{1}{2}$ Rubles, \$3.86; Ducat, 3 Rubles, \$2.39; 10 Rubles, new, \$7.72; 5 Rubles, new, \$3.86.

Silver Coins and Value:—Ruble, 50 cents; Half Ruble, 25 cents; Quarter Ruble, 25 Copecks, 12.5 cents; 20 Copecks, 10 cents; 15 Copecks, 7.6 cents; 10 Copecks, 5 cents; 5 Copecks, 2.5 cents.

A Copeck has the nominal value of $\frac{3}{4}$ of a cent in United States money.

Minor Coins:—5, 2, and 1 Copeck pieces of copper.

Paper Money:—Notes issued by the Bank of Russia in denominations of 1, 3, 5, 25, and 100 Rubles.

Gold and silver are usually at par with paper money.

Drafts should be drawn in Rubles.

Scotland—See Great Britain.

Servia.

A Kingdom; area, 19,050 square miles; population, 2,288,250; principal cities and population: Belgrad, capital, 59,000; Nisch, 21,000.

Unit—Dinar=100 Paras.

Gold Coins and Value:—Milan d'Or, 20 Dinars, \$3.86; 10 Dinars, \$1.93; 5 Dinars, 96.5 cents.

Silver Coins and Value:—2 Dinars, 34.7 cents; 1 Dinar, 17.4 cents; 50 Paras, 8.7 cents; 20 Paras, 3.5 cents.

Minor Coins:—20, 10, and 5 Paras of nickel, and 10, 5, and 1 Paras of bronze.

Paper Money:—Notes issued by the National Bank of Servia.

This Country has practically the same monetary system as France, with coins of same value under different names.

Drafts should be drawn in Francs, Pounds Sterling, or Marks.

Spain.

A Kingdom; area, 197,670 square miles; population, 17,570,000; principal cities and population: Madrid, capital, 105,000; Barcelona, 285,000; Valencia, 180,000; Seville, 145,000; Malaga, 140,000; Murcia, 100,000.

Unit—Peseta=100 Centimos.

Gold Coins and Value:—25 Pesetas, \$4.825; Doubloon, old, \$5.017; 50 Pesetas, \$9.65; Alfonso, \$4.78.

Silver Coins and Value:—5 Pesetas or Dollar, 87 cents; 2 Pesetas, 34.8 cents; Peseta, 17.4 cents; 50 Centimos, 8.7 cents; 20 Centimos, 3.5 cents.

Minor Coins:—5, 2, and 1 Centimo pieces of bronze.

Paper Money:—Notes issued by the Bank of Spain in denominations of 25, 50, 100, 500, and 1000 Pesetas.

Under former monetary system pieces called Escudos were coined, 1 Escudo being equal to about $2\frac{1}{2}$ of the present Pesetas. It will be noticed that the money of Spain is similar to that of France.

Drafts should be drawn in Pesetas, Francs, Pounds Sterling, or Marks.

Sweden.

A Kingdom; area, 172,876 square miles; population, 4,919,250; principal cities and population: Stockholm, capital, 275,000; Göteborg, 116,000; Malmö, 53,300.

Unit—Krone or Crown=100 Ores.

Gold Coins and Value:—20 Crowns, \$5.36; 10 Crowns, \$2.68; Ducat, \$2.23.

Silver Coins and Value —2 Crowns, 49.9 cents; 1 Crown, 24.9 cents; 50 Ores, 12 cents; 40 Ores, 9 cents; 20 Ores, 4 cents; 10 Ores, 2 cents.

Minor Coins:—5, 2, and 1 Ore pieces of bronze. The 1 Ore piece is worth, nominally, $\frac{1}{4}$ of 1 cent.

Paper Money:—Notes issued by banks in denominations of 1, 5, 10, 50, 100, 500, and 1000 Kroner or Crowns.

The Krone and Crown are the same. The monetary system of Sweden is the same as that of Norway and Denmark.

Drafts should be drawn in Kroner.

Switzerland.

A Republic; area, 15,976 square miles; population, 2,934,000; principal cities and population: Berne, capital, 50,000; Basle, 94,000; Geneva, 84,000; Zurich, 148,000.

Unit—Franc=100 Centimes.

Gold Coins and Value:—100 Francs, \$19.30; 50 Francs, \$9.65; 20 Francs, \$3.86; 10 Francs, \$1.929; 5 Francs, 96.5 cents.

Silver Coins and Value:—5 Francs, 93.5 cents; 2 Francs, 34.7 cents; 1 Franc, 17.4 cents; 50 Centimes, 8.7 cents; 20 Centimes, 3.5 cents.

Minor Coins:—5 Centime piece of nickel and 1 Centime piece of bronze.

Paper Money:—Notes issued by banks in denominations of 5 Francs and upwards.

The monetary system of this Country is the same as that of France, and its coins bear the same names.

Drafts should be drawn in Francs.

Turkey.

(Europe and Asia). An Empire; area, 714,423 square miles; population, 27,694,500; principal cities and population: Constantinople, capital, 900,000; Adrianople, 100,000; Damascus, 200,000; Smyrna, 200,000; Bagdad, 180,000; Aleppo, 130,000; Beyrout, 100,000; Salonica, 150,000; Rhodes, 10,000.

Unit—Piastre=40 Paras of 3 Aspes.

Gold Coins and Value:—500 Piastres, \$21.98; 250 Piastres, \$10.99; 100 Piastres, \$4.396; 50 Piastres, \$2.198; 25 Piastres, \$1.10. The 100-Piastre piece is the Turkish Pound or Medjidie or Lira; the 500-Piastre is the 5-Pound; the 250-Piastre is the 2½-Pound; the 50-Piastre is the ½-Pound, and the 25-Piastre is the ¼-Pound. The Pound is worth \$4.396, and, it will be noted, is considerably less than the British Pound, Sterling.

Silver Coins and Value:—20 Piastres, 82.8 cents; 10 Piastres, 41.4 cents; 5 Piastres, 20.7 cents; 2 Piastres, 8.3 cents; 1 Piastre, 4 cents.

Minor Coins:—A Para is equal to 11/100ths of a cent, and the Aspes is equal to 11/300ths of a cent. No data as to the denominations of these coins.

Paper Money:—Notes issued by the Imperial Ottoman Bank, in various denominations of Piastres.

Drafts should be drawn in Pounds Sterling, Francs, or Marks.

Wales—See Great Britain.

ASIA.**Aden.**

A British port on the southwest coast of Arabia, near the entrance to the Red Sea.

British money, or that of Turkey, would, no doubt, pass current.

Drafts should be drawn in Pounds, Sterling.

Afghanistan.

An Empire; adjoins India on the northwest; area, 279,000 square miles; population, 4,000,000; principal cities and population: Kabul, capital, 70,000; Kandahar, 60,000; Herat, 45,000; Andkhui, 30,000.

The coinage of this Country has been so small that it may be said that it has practically no coinage. The money of account is the Rupee of India, supplied from Russia, India, and Persia. Russian and British coins and paper money circulate.

Drafts should be drawn in Mexican Dollars, Pounds Sterling, Francs, or Marks.

Baluchistan.

An Empire; northeast of India, on the Arabian Sea; area, 130,000 square miles; population, 500,000; principal cities and population: Kelat, capital, 15,000; Belar, 10,000.

This Country keeps its accounts in, and uses the same monetary system as India.

Drafts should be drawn in Mexican Dollars, Pounds Sterling, Francs, or Marks.

British India.

An Empire; controlled by Great Britain; area, 1,568,960 square miles; population, 287,223,400; principal cities and population: Calcutta, capital, 980,000; Bombay, 825,000; Madras, 455,000; Hyderabad, 420,000; Lucknow, 275,000; Benares, 225,000; Delhi, 200,000; Mandalay, 190,000; Cawnpore, 190,000; Agra, 170,000; Allahabad, 180,000; Bangalore, 180,000; Lahore, 180,000; Patna, 170,000; Rangoon, 180,300; Karachi, 75,000.

Unit.—Rupee of 16 Annas=4 Pice at 3 Pie.

Gold Coins and Value:—Mohur, 15 Rupees, \$7.10; 10 Rupees, \$4.72; 5 Rupees, \$2.36; Double Mohur, \$14.20.

Silver Coins and Value:—Rupee, 20.6 cents; Half Rupee,

10.3 cents; Quarter Rupee, 4 Annas, 5.2 cents; Eighth Rupee, 2 Annas, 3 cents. The nominal or home value of the Silver Rupee is about 46 cents.

Minor Coins:—Double Pice or Half Anna, Pice or Quarter Anna, Half Pice or Eighth Anna, Pie or Twelfth Anna pieces of copper or bronze. The Pie is worth less than one-quarter of a cent, United States money.

Paper Money:—Notes issued by government, only, in denominations of 5 Rupees and upwards.

The states of Padukota, Sindh, Nepal, Dewas, and Punjab, in India, still have coinage of their own and use their own pieces, but coins of India circulate freely.

Drafts should be drawn in Pounds Sterling, or Mexican Dollars.

Ceylon.

A British colony; an Island off the southeast coast of India; area, 25,364 square miles; population, 3,008,500; principal city: Colombo, capital; population, 127,000.

Unit—Rupee=100 Cents.

Gold Coins:—None coined.

Silver Coins and Value:—50 Cents, 22.2 cents; 25 Cents, 11.1 cents; 10 Cents, 5.5 cents.

Minor Coins:—5, 1, and $\frac{1}{2}$ Cents of copper. One hundred of these copper Cents are worth about $44\frac{1}{2}$ cents, United States money.

Paper Money:—Notes issued by government in denominations of 5, 10, 50, 100, 500, and 1000 Rupees.

Drafts should be drawn in Pounds, Sterling.

China.

An extensive Empire in Eastern Asia; area, 4,486,700 square miles; population, 402,680,000; principal cities and population: Peking, capital, 1,300,000; Canton, 2,500,000; Suchow, 500,000; Chang-chau, 800,000; Tientsin, 950,000; Hangchau, 800,000; Woo-Ching, 800,000; Foo-chow, 650,000; Shanghai, 475,000; Chingtu, 800,000; Chukiang, 700,000; Hangchau, 800,000; Hankau, 800,000; Soochau, 900,000; Tamsui, 900,000.

New Unit—Dollar=100 Cents.

Gold Coins:—No gold coined.

Silver Coins:—Dollar, Half Dollar, 20-Cent, 10-Cent, and 5-Cent pieces. The actual coinage value of these pieces has not yet been determined, but the Dollar is worth about 50 cents in United States money. The silver coins in use are the Mexican Peso or Dollar, and smaller denomination pieces, but other silver coins are in circulation. Many of the silver coins are cut into pieces, and, in order to pass current, are stamped or "chopped" by some well-known merchant or by a local Governor. Silver coins called Tael are also quite generally used. Their present value varies according to the locality, as follows: Amoy Tael, 69.1 cents; Canton Tael, 70 cents; Chefoo Tael, 66.1 cents; Ching Kiang Tael, 67.5 cents; Fuchau Tael, 64 cents; Haikwan Tael, 70.3 cents; Hankow Tael, 64.7 cents; Ningpo Tael, 66.5 cents; Shanghai Tael, 63.1 cents; Swatow Tael, 63.9 cents; Takau Tael, 69.9 cents; Tientsin Tael, 67 cents. The divisions of the Tael are nominally: 1 Tael=10 Mace of 10 Candareens or Fun, each Candareen being equal to 10 Cash or Li.

Minor Coins:—Pieces called Cash are coined of copper and zinc with a square hole in the center. One thousand of these are usually issued on a string and are worth about \$1.02, or the same as a Mexican Dollar, or, nominally, 1/10 of a cent each.

Paper Money:—Notes issued by the Bank of Hong Kong, as well as some other foreign banks, circulate freely, and in some of the provinces local banks are authorized to issue notes. We have no data as to their denomination.

Drafts should be drawn in Mexican Dollars, although drafts in Pounds, Sterling, are acceptable.

Corea.

An Empire; area, 85,000 square miles; population, 10,529,000; principal city: Seoul, capital; population, 250,000.

Unit—Yang=100 Cash.

Although a mint has been established, no coinage has as yet taken place. The currency in use consists of Japanese coins, Mexican dollars, and copper "Cash," similar to those of China, but of less value. The proposed coinage will be the unit Yang of silver, worth about 12 cents, United States money. Nickel and copper pieces are also to be used.

Drafts should be drawn in either Mexican or United States Dollars.

Dutch East Indies.

Islands in the Pacific Ocean; a Netherland colony of islands, comprising Java, Sumatra, and Borneo, located south-east of China; area, 717,674 square miles; population, 32,000,000; principal cities and population: Batavia, Java, capital, 110,000; Samarang, Java, 72,200; Surabaya, Java, 145,600; Brunei, Borneo, 20,000; Sarawak, Borneo, 18,000; Benkulen, Sumatra, capital, 40,000.

Unit—Florin=100 Cents.

The monetary system of these Islands is the same as that of the Netherlands.

Paper Money:—Notes are issued by the Bank of Java.

Drafts should be drawn in Florins or Mexican Dollars.

Hong Kong.

A British Colony; an island off the southeast coast of China; area, 30 square miles; population, 222,000; principal city, Victoria, capital, population, 144,300.

Unit—Dollar=100 Cents.

Gold Coins:—No gold pieces coined.

Silver Coins and Value:—Dollar, 49 cents; Half Dollar, 24.5 cents; 20 Cents, 10 cents; 10 Cents, 5 cents; 5 Cents, 2.5 cents. The Mexican Silver Dollar and divisions are in general circulation.

Minor Coins:—1 Cent of bronze. A coin called "Cash," similar to the Chinese coin of the same name, is used to a large extent. One Cash is worth, nominally, 1/10 of a cent.

Paper Money:—Notes issued by banks in denominations of \$5 and upwards. Notes of some of the banks show on their face their value in both English and Chinese characters.

Drafts should be drawn in Mexican Dollars or Pounds Sterling.

India—See British India.

Indo-China.

French Dependency, comprising States of Anam, Laos, Cambodia, Tong-King, and Cochin China; area, 315,122 square miles; population, 22,691,000; principal cities and population: Hue, capital, 50,000; Saigon, 90,000; Hanoi, 150,000; Pnom Penh, 50,000.

Unit—Piaster=100 Cents.

Gold Coins:—None.

Silver Coins and Value:—Piaster, 47.5 cents; 50 Cents, 23.7 cents; 25 Cents, 11.9 cents; 10 Cents, 4.8 cents; 5 Cents, 2.4 cts.

Minor Coin:—One Cent of bronze.

Paper Money:—Notes of various denominations in Piasters issued by the French Bank of Indo-China.

The money of India and China, as well as that of France, passes current.

Drafts should be drawn in Mexican Dollars or Francs.

Japan.

An Empire, consisting of four large, and many small islands; area, 162,655 square miles; population, 49,307,000; principal cities and population: Tokyo, capital, 1,370,000; Osaka, 490,000; Kioto, Saikyo, 328,400; Nagoya, 206,742; Yokohama, 185,000; Kobe, 158,900.

Unit—Yen=100 Sen.

Gold Coins and Value:—20 Yen, \$9.96; 10 Yen, \$4.98; 5 Yen, \$2.49; 2 Yen, 99.6 cents; Yen, 49.8 cents.

Minor Coins:—5 Sen pieces of nickel, and 2, 1, and $\frac{1}{2}$ Sen pieces of copper.

Paper Money:—Notes issued by Bank of Japan.

Drafts should be drawn in Yen, or Pounds Sterling.

Java—See Dutch East Indies.

Korea—See Corea.

Nepal.

A Kingdom, situated northeast of India; area, 54,000 square miles; population, 3,000,000; principal city, Khatmandu, capital, population, 50,000.

No data as to actual coinage in this Country, but the money principally in use is that of British India and China.

Drafts should be drawn in Pounds Sterling, or Mexican Dollars.

Palestine—See Turkey.

Persia.

A Kingdom; area, 630,000 square miles; population, 9,000,000; principal cities and population: Teheran, capital, 210,000; Tabriz, 180,000; Ispahan, 80,000; Meshed, 60,000; Barfurush, 50,000.

Unit—Toman=10 Krans or 20 Shahis.

Gold Coins and Value:—2 Tomans, \$3.409; 1 Tomans, \$1.70; Half Toman, 85 cents.

Silver Coins and Value:—5 Krans, 39.5 cents; 2 Krans, 15.8 cents; 1 Kran, 7.9 cents; Half Kran, 3.9 cents; Quarter Kran, 2 cents.

Minor Coins:—2, 1, and Half Shahis of copper. The Shahi is worth, nominally, 17/20ths of a cent.

Paper Money:—Notes of 1, 2, 3, 5, 10, 20, 25, 50, 100, 500, and 1000 Tomans are issued by the Imperial Bank of Persia.

Drafts should be drawn in Pounds Sterling, Francs, or Marks.

Philippine Islands.

Pacific Ocean. Until recently, a Spanish Colony, but now owned by the United States. The principal islands of this group are Luzon, Mindoro, Negros, Mindanao, Cebu, Panay, Leyte, and Bohol, but there are many other small islands, two thousand in number; area, 114,326 square miles; population, 8,000,000; principal cities and population: Manila, capital, 300,000; Lipa, 44,000; Bauan, 36,000; Batangas, 36,000; Laoag, 37,000; Balayan, 17,000; Tibi, 14,000; Albay, 13,000; Bacolo, 13,000; Bulacan, 12,180; Cebu, 12,000; Iloilo, 12,000.

These Islands have no coinage of their own but have been supplied by Spain with Gold Dollars, worth 96.4 cents, and Silver Dollars worth about 52 cents. Preference, however, is given to the Mexican Dollar, worth about 50 cents. Minor coins in cents of bronze have also been supplied by Spanish mints. A local bank at Manila issues bank notes. Accounts are kept in dollars and cents. The money of the United States passes current.

Drafts should be drawn in Mexican or United States Dollars.

Russia—See Russia in Europe.

Siam.

A Kingdom; situated in south-eastern Asia; area, 220,000 square miles; population, 10,000,000; principal cities and population: Bangkok, capital, 700,000; Yuthia, 40,000.

Unit—Tical=64 Lots of 100 Cowries.

The Tical is a small bit of silver bearing a stamp, worth about 60 cents. Intermediate pieces are, however, similar to coins. Cowries, made of shells, are not now used, but were formerly the principal medium. Small coins of pewter and copper have been introduced to take the place of shells. The equivalents are: 800 Cowries equal 1 Faung; 1 Bat or Tical equals 4 Salungo; about 6400 Cowries equal 1 Tical; 220 Cowries equal about 2 cents; 1 Lot is equal to about 1 cent; 5 Ticals are equal to about \$1.50.

Bank notes issued by outside banks are in circulation. The money of India and Indo-China, as well as Mexican Dollars, circulate.

Drafts should be drawn in Mexican Dollars, or Pounds Sterling.

Straits Settlements.

Islands; a British Colony of islands just off the southern coast of the Malay Peninsula and just east of the Island of Sumatra. These islands are located in the direct line of ocean travel from Hong Kong and the Philippine Islands to the Indian Ocean. Upon these islands are located the important British ports of Singapore and Penang.

The unit of money in use is the Dollar or 100 Cents, the same as at Hong Kong. British money and Mexican Dollars are in general use, but accounts are kept in dollars and cents. The British Dollar used here is rated the same as the Mexican Dollar, at about 50 cents.

Drafts should be drawn in Mexican Dollars, or Pounds Sterling.

Sumatra—See Dutch East Indies.

Turkey—See Turkey in Europe.

AFRICA.**Abyssinia.**

An Italian Dependency; situated in the eastern part of Africa; area, 462,000 square miles; principal cities and population: Ankober, capital, 10,000; Gondar, 5,000; Axum, 5,000.

This Country has no mints of its own but is supplied by Italy with Silver Dollars, and divisional pieces known as Eritrean Dollars, as follows: Dollar, Half Dollar, Quarter Dollar, and Tenth Dollar. These pieces are worth, nominally, about $93\frac{1}{2}$, 35, $23\frac{1}{2}$, and $9\frac{1}{2}$ cents, respectively. There is also in use the Austrian Maria Theresa Thaler or Dollar, worth, nominally, about \$1.03. British money circulates, as does also Spanish money.

Drafts should be drawn in Pounds Sterling, Lire, Francs, or Marks, as desired.

Algeria.

An important French colony on the north coast of Africa; area, 184,474 square miles; population, 4,429,421; principal cities and population: Algiers, capital, 100,000; Oran, 75,000; Bona, 31,000; Constantine, 46,581; Tiemcen, 30,000; Blida, 25,000; Gardia, 30,000; Mustapha, 25,000; Ouzon, 26,000.

Unit—Franc=100 Centimes.

Gold Coins and Value:—100 Francs, \$19.30; 50 Francs, \$9.65; 20 Francs, \$3.86; 10 Francs, \$1.93; 5 Francs, 96.5 cents.

Silver Coins and Value:—5 Francs, 93.5 cents; 2 Francs, 34.7 cents; 1 Franc, 17.4 cents; 50 Centimes, 8.7 cents; 20 Centimes, 3.5 cents.

Minor Coins:—10 and 5 Centime pieces of bronze. The nominal value of the 5 Centime piece is about 1 cent.

Paper Money:—Bank notes issued by the Bank of Algeria in various denominations.

Drafts should be drawn in Francs, or Pounds Sterling.

Angola.

Portuguese Colony on the west coast of Africa; area, 517,000 square miles; population, 3,500,000; principal city, St. Paul de Loanda, population, 20,000.

No data as to coins in actual use, but presumably the money of Portugal and Great Britain are used.

Drafts should be drawn in Pounds Sterling, or Francs, as desired.

Cape Colony.

Cape of Good Hope; a British Colony on the extreme southern coast of Africa; area, 276,925 square miles; population, 1,799,900; principal cities and population: Cape Town, capital, 84,000; Kimberley, 30,000; Port Elizabeth, 23,266.

Unit—Pound=20 Shillings.

1 Shilling=12 Pence.

The gold, silver, and minor coins in use in this Country are the same as in Great Britain. Notes issued by banks in denominations of 1 Pound, 5 Pounds, 10 Pounds, and 20 Pounds.

The unorganized territories of Bechuanaland and Mashonaland are under British control and use the money system of Great Britain.

Drafts should be drawn in Pounds, Sterling.

Cape of Good Hope—See Cape Colony.

Congo Free State.

A Belgian Colony; area, 900,000 square miles; population, 30,000,000; principal city, Boma, capital, population unknown.

Unit—Franc=100 Centimes.

Gold Coins:—None coined.

Silver Coins and Value:—5, 2, and 1 and also Half Franc pieces of the same value as the Franc piece of same denomination of France.

Minor Coins:—10, 5, 2, and 1 Centime pieces of copper.

Drafts should be drawn in Pounds Sterling, or Francs.

Egypt.

An Empire in northeastern Africa; area, 400,000 square miles; population, 9,654,323; principal cities and population: Cairo, capital, 576,400; Alexandria, 319,700; Damietta, 34,000.

Unit—Egyptian Pound=100 Piasters of 10 Ochr-el-guerche.

Gold Coins and Value:—Pound, 100 Piasters, \$4.943; Half Pound, 50 Piasters, \$2.47; 20 Piasters, 98.8 cents; 10 Piasters, 49.4 cents; 5 Piasters, 24.7 cents.

Silver Coins and Value:—20 Piasters, 47.2 cents; 10 Piasters, 23.6 cents; 5 Piasters, 11.3 cents; 2 Piasters, 4.7 cents; 1 Piaster, 2.9 cents.

Minor Coins:—5, 2, and 1 Ochr-el-guerches of nickel, and Half and Quarter Ochr-el-guerches of bronze. The Quarter piece is worth about one-eighth of a cent in United States money.

Paper Money:—None issued.

The gold coins of other countries are accepted at their value.

Drafts should be drawn in Pounds, Sterling, payable at current rate on London.

Eritrea.

An Italian Colony on the northeast coast of Africa, bordering on the Red Sea; area, 88,500 square miles; population, 450,000; principal city, Massowah, population, 9,000.

This Country is supplied by Italy with what are known as Eritrean Dollars, which are of silver, in denominations of Dollar, Half Dollar, Quarter Dollar, and Tenth Dollar, and are worth about 93½, 35, 23½, and 9½ cents, respectively. British and Spanish money, as well as the Silver Dollar known as the Maria Theresa Dollar, are in circulation.

Drafts should be drawn in Pounds Sterling, or Lire.

German East Africa.

A German Protectorate on the southeastern coast of Africa; area, 380,000 square miles; population, 4,000,000; principal cities and population: Dar-es-Salaam, capital, 10,000; Bagamoyo, 13,000; Kilwa, 10,000.

This Country uses a system much like that of India, the Rupee, but of 100 Cents or Pesas. Silver coins are 2, 1, Half and Quarter Rupees. No data as to value. Minor coins of 5, 2, and 1 Cent or Pesa of bronze.

Drafts should be drawn in Pounds Sterling, or Marks.

Kongo Free State—See Congo Free State.

Liberia.

A Republic; situated on the western coast of Africa; area, 57,000 square miles; population, 1,500,000; principal cities and population: Monrovia, capital, 6,000; Harper, 9,000; Buchnam, 5,000; Edma, 5,000.

While this Country is supposed to use the same monetary system as the United States, the coins in circulation are those of neighboring states. Paper money is issued by the government only to a limited extent.

Drafts should be drawn in Pounds Sterling, or United States Dollars.

Madagascar.

The third largest island in the world; a French Colony; situated southeast of Africa in the Indian Ocean; area, 228,500 square miles; population, 3,500,000; principal city, Antananarivo, capital, population, 100,000.

France having obtained control of this Island, the Franc has recently become the prevailing coin. The 5-Franc piece is known as the Dollar and has supplanted the former Mexican Dollar in use. Nominally, the unit is called the Ariary, which is nearly like the dollar of old Spain. Cut coins are largely in use, but the Franc of France and the divisional pieces of same, as well as the minor coins of France, are becoming generally used.

Drafts should be drawn in Francs, or Pounds Sterling.

Morocco.

An Empire; situated on the extreme northern coast of Africa; area, 314,000 square miles; population, 8,000,000; principal cities and population: Fez, capital, 140,000; Morocco, 50,000; Mequinez, 56,000; Tangier, 30,000; Tetuan, 25,000.

Unit—Okia or Ounce=4 Blankeels of 6 Floos each.

The Okia is a silver piece worth about 48.8 cents. Pieces of 5, 2½, 1, and ½ Okias are supplied by the mints at Paris. Six Floos are equal to about 2 cents, United States money.

Drafts should be drawn in Pounds Sterling, or Francs.

Natal.

A British Colony; situated in the extreme southeastern part of Africa, on the Indian Ocean; area, 20,850 square miles; population, 544,000; principal cities and population: Durban, 28,000; Pietermaritzburg, capital, 21,000.

The coins used in this Country are furnished by Great Britain and are principally the silver and bronze coins.

Bank notes are issued by the Natal Bank. Accounts are kept in pounds, shillings, and pence.

Drafts should be drawn in Pounds, Sterling.

Orange River Colony.

A British Colony; situated in the southeastern part of Africa; area, 52,000 square miles; population, 207,500; principal cities and population: Bloemfontein, capital, 6,000; Jagers Fontein, 4,000.

This Country uses the money of Great Britain, the same as in Natal, Cape Colony, and the South African Republic adjoining. Accounts are kept in pounds, shillings, and pence.

Drafts should be drawn in Pounds, Sterling.

Reunion.

An Island just east of the Island of Madagascar, belonging to France. No data as to area; population, 171,731. This Island uses the money of France. Notes are issued by the Bank of Reunion. The principal city is St. Denis.

Drafts should be drawn in Francs, or Pounds Sterling.

Sierra Leone.

A British Colony on the northwestern coast of Africa; area, 22,000 square miles; population, 180,000; principal city, Freetown, capital, population, 30,000.

The money used in this Country is principally the 5-Franc piece of France and the divisional pieces. Also the silver and minor coins of Great Britain. French money is most in use by reason of the business relations with the adjoining French Colony of Senegal. No paper money issued.

Drafts should be drawn in Pounds Sterling, or Francs.

The Transvaal.

Or Transvaal; a British Colony in the southern part of Africa; area, 113,642 square miles; population, 750,000; principal cities and population: Pretoria, capital, 12,000; Johannesburg, 108,000; Klerksdorp, 10,000.

This Country uses the money of England almost exclusively and accounts are kept as in the adjoining states of Natal and Cape Colony. The English system was adopted to facilitate its commerce with the adjoining states. This is one of the principal gold producing countries.

Drafts should be drawn in Pounds, Sterling.

Tunis.

A French Protectorate located on the extreme northern coast of Africa on the Mediterranean Sea; area, 38,000 square miles; population, 1,500,000; principal cities and population: Tunis, capital, 153,000; Sfax, 30,000; Kairwan, 15,000; Sousse, 10,000.

Old Unit—Piaster=16 Karobs.

New Unit—Franc=100 Centimes.

Gold Coins and Value:—25 Piasters, \$2.89; 20 Francs, \$3.86; 10 Francs, \$1.93.

Silver Coins and Value:—2 Francs, 34.8 cents; 1 Franc, 17.4 cents; Half Franc, 8.7 cents; 20 Centimes, 3.5 cents.

Minor Coins:—10 and 5 Centime pieces of bronze.

Paper Money:—Notes issued by Bank of Algeria and Bank of France in various denominations.

The old unit of this Country, the Piaster, was equal to about $11\frac{2}{3}$ cents, United States money.

Drafts should be drawn in Francs, or Pounds Sterling.

Zanzibar.

British Protectorate; an Island located off the eastern coast of Africa, opposite German East Africa; area, 985 square miles; population, 200,000; principal city, Zanzibar, capital, population, 30,000.

Unit—Dollar=100 Cents or Pesas.

Gold Coins and Value:—5 Dollars, \$4.92; $2\frac{1}{2}$ Dollars, \$2.46.

Silver Coins and Value:—1 Dollar, 49 cents; 50 Cents, 24.5 cents; 25 Cents, 12 cents.

Minor Coins:—Cents or Pesas of bronze.

The Maria Theresa Dollar of Spain and the Rupee of India also circulate freely.

Drafts should be drawn in Pounds, Sterling.

PACIFIC OCEAN.**Australia.**

British Colony; an Island surrounded by the Pacific and Indian oceans, located southeast of Asia, belonging to Great Britain. It is divided into five provinces or states, as follows: Queensland, New South Wales, South Australia, Victoria, and Western Australia; area, 2,946,691 square miles; population, 3,310,190; principal cities and population: Sydney, New South Wales, 420,000; Brisbane, Queensland, 100,000; Adelaide, South Australia, 150,000; Melbourne, Victoria, 491,000; Perth, West Australia, 45,000.

Unit—Pound=20 Shillings.

12 Pence=1 Shilling.

Gold Coins and Value:—Sovereign or Pound, \$4.866; Australia Half Sovereign, \$2.43; 5 Guineas, \$25.55; 2 Guineas, \$10.22; Guinea, 21 Shillings, \$5.11; Half Guinea, \$2.55; Quarter Guinea, \$1.27.

Silver Coins and Value:—Crown, \$1.08; Half Crown, 54.4 cents; Shilling, 21.7 cents; Sixpence, 10.8 cents; Threepence, 5.4 cents.

Minor Coins:—Pence, Halfpence, and Farthings of bronze. Its Farthing is worth about half a cent in United States money.

Paper Money:—Bank notes of various amounts in Pounds, Sterling, are issued by 17 different banks and branches. The Silver Dollar of Mexico is also in general circulation.

Drafts should be drawn in Pounds, Sterling.

Borneo.

Island; British and Dutch Colony, the northeastern portion being under British control; area, 286,161 square miles; population, 1,846,000; principal cities and population: Brunei, 20,000; Sandakan, 7,000; Sarawak, 20,000.

The British portion of this Island uses Dollars and Cents, the same as the United States. The Dutch portion uses the Florin or Guilder, the same as Java and Sumatra.

Drafts should be drawn in Pounds Sterling, or Florins.

Fiji Islands.

A group of over 200 islands, just east of Australia, under control of Great Britain; area, 7,740 square miles; population, 125,402; principal city, Suva, capital, population, 5,000.

These islands use the English Pound, Shilling, and Penny. Bank notes are supplied by banks in Australia.

Drafts should be drawn in Pounds, Sterling.

Hawaiian Islands.

A group of several islands about 2,090 miles southwest of San Francisco, California, recently annexed to the United States; area, 6,740 square miles; population, 110,000; principal city, Honolulu, capital, population, 30,000.

The money in use in these Islands is the same as that in use in the United States.

Drafts should be drawn in United States Dollars.

New Zealand.

Islands; a British Colony of islands located just west of Australia; area, 104,471 square miles; population, 743,214; principal cities and population: Wellington, capital, 45,000; Auckland, 60,000; Dunedin, 50,000; Christchurch, 16,964.

Unit—Pound=20 Shillings.

1 Shilling=12 Pence.

The money used in this Country is that in use in Australia.

Drafts should be drawn in Pounds, Sterling.

Tasmania.

Van Diemen's Land; a British Colony Island just south of Australia; area, 26,385 square miles; population, 150,000; principal cities and population: Hobart, capital, 36,000; Launceston, 25,000.

Unit—Pound=20 Shillings.

1 Shilling=12 Pence.

The money in use is the same as that in Australia.

Drafts should be drawn in Pounds, Sterling.

NORTH AMERICA.**Alaska.**

A Territory of the United States; area, estimated, 577,398 square miles; population, 100,000; principal cities and population: Sitka, capital, 3000; Juneau, 6000; Circle City, 6000; St. Michaels, and Weare, population unknown.

Unit—Dollar=100 Cents.

The money of the United States, as well as that of Canada, is in circulation. Being a great gold-producing country with poor banking facilities, gold dust is used for local commercial purposes in lieu of coined pieces.

Drafts should be drawn in United States Dollars.

Canada.

An important Colony of Great Britain, comprising all of British North America, except Newfoundland and Labrador. There are eight provinces or states, as follows: New Brunswick, Quebec, Ontario, Manitoba, British Columbia, Northwest Territories, Nova Scotia, and Prince Edward Island; area, 3,619,819 square miles; population, 5,371,315; principal cities and population: Toronto, Ontario, 288,040; Montreal, Quebec, 267,730; Quebec City, capital, Quebec, 63,000; Hamilton, Ontario, 50,000; Ottawa, capital, Ontario, 45,000; St. John, New Brunswick, 40,000; Halifax, Nova Scotia, 40,000; Winnipeg, capital, Manitoba, 38,100; Victoria, British Columbia, 20,000; Vancouver, British Columbia, 18,000.

Unit—Dollar=100 Cents.

Gold Coins:—No gold pieces have been coined, the gold coins of the United States and Great Britain are used almost exclusively.

Silver Coins and Value:—50 Cents, 44.6 cents; 25 Cents, 22.3 cents; 10 Cents, 8.9 cents; 5 Cents, 4.5 cents.

Minor Coins:—One Cent pieces of copper.

Paper Money:—Notes issued by the government and banks of \$1, \$2, \$4, \$5, \$10, \$20, \$50, \$100, \$500, and \$1000.

The money of the United States, both gold and silver, passes without discount, on all cities near the border and on the Great Lakes, and money of England is, of course, accepted at face value.

Draw drafts in United States Dollars.

Labrador.

A British Colony on the east coast of British North America; area, 25,000 square miles; population, 52,000.

The money of this Country is the same as that of Newfoundland.

Drafts should be drawn in United States Dollars.

Mexico.

A Republic; area, 767,005 square miles; population, 12,636,887; principal cities and population: Mexico City, capital, 350,000; Leon, 120,000; Allende, 118,000; Guadalajara, 85,000; Puebla, 91,917; Guanajuato, 55,000.

Unit—Peso or Dollar=100 Centavos or Cents.

Gold Coins and Value:—Doubloon, \$15.53; Half Doubloon, \$7.76; Quarter Doubloon, \$3.88; Eighth Doubloon, \$1.94; Sixteenth Doubloon, Dollar, 98 cents; 20 Pesos, \$19.66; 10 Pesos, \$9.83; 5 Pesos, \$4.915; 2½ Pesos, \$2.457; Peso, 98.3 cents. The home value of the Doubloon is \$16.

Silver Coins and Value:—Peso or Dollar, 47.4 cents; Half Peso, 50 Centavos, 24 cents; Quarter Peso, 25 Centavos, 12 cents; 10 Centavos, 5 cents; 5 Centavos, 2½ cents.

Minor Coins:—5, 1, and ½ Centavo pieces of nickel, and 2 and 1 Centavo pieces of copper.

Paper Money:—Notes issued by banks of usual denominations.

This Country produces great quantities of silver, and provides many other countries with coins through its eleven mints. The greater proportion of its coinage is exported.

Drafts should be drawn in Mexican or United States Dollars.

Newfoundland.

A British Colony on the east coast of British North America; area, 42,200 square miles; population, 203,500; principal city and population: St. John's, capital, 31,142.

Unit—Dollar=100 Cents.

Gold Coins and Value:—2 Dollars, \$2.03; Sovereign, \$4.866.

Silver Coins and Value:—50 Cents, 44.6 cents; 25 Cents, 22.3 cents; 10 Cents, 8.9 cents; 5 Cents, 4.5 cents.

Minor Coins:—Cent pieces of copper and zinc.

Paper Money:—Notes supplied by banks of Canada, and of same denominations.

The Dollar of the United States, the Sovereign of England, and the Spanish Doubloon are full legal tender for 98.5 cents, \$4.80 and \$15.35, respectively.

This Country maintains a position of independence from Canada, being under separate government in direct communication with England.

Drafts should be drawn in United States Dollars.

United States.

A Republic; area, 3,602,960 square miles; population, 65,600,000; principal cities and population: Washington, District of Columbia, capital, 285,000; Greater New York, New York, 2,985,422; Chicago, Illinois, 2,000,000; Philadelphia, Pennsylvania, 1,300,000; St. Louis, Missouri, 600,000; Boston, Massachusetts, 500,000; Cincinnati, Ohio, 400,000; Buffalo, New York, 375,000; Cleveland, Ohio, 375,000; San Francisco, California, 325,000; Detroit, Michigan, 300,575; New Orleans, Louisiana, 300,000; Pittsburgh, Pennsylvania, 300,000; Milwaukee, Wisconsin, 249,290; Louisville, Kentucky, 200,000; Minneapolis, Minnesota, 192,833; Kansas City, Missouri, 160,000; St. Paul, Minnesota, 150,000; Omaha, Nebraska, 150,000.

Unit—Dollar=100 Cents.

Gold Coins and Value:—Double Eagle, \$20; Eagle, \$10; Half Eagle, \$5; Quarter Eagle, \$2.50; Dollar, \$1.

The actual value of the Eagle, Half Eagle, and Quarter Eagle, coined prior to 1834, is, by reason of greater weight and fineness, \$10.65, \$5.32, and \$2.66, respectively.

Silver Coins and Value:—Trade Dollar, 53 cents; Standard Dollar, \$1; Half Dollar, 50 cents; Quarter Dollar, 25 cents; Dime, 10 cents; Half Dime, 5 cents; Three Cents, 3 cents. Silver coins, known as Souvenir, Columbian, or World's Fair Half and Quarter Dollars are worth 50 cents and 25 cents, respectively.

Minor Coins:—5 and 3 Cent pieces of nickel and 1 Cent pieces of nickel and copper; also 2 and 1 Cent pieces of bronze. Half Cent pieces of copper were coined prior to 1857.

Paper Money:—Notes issued by the Government and National Banks in denominations of 1, 2, 5, 10, 20, 50, 100, 500, and 1000 Dollars.

Checks should be drawn in United States Dollars.

CENTRAL AMERICA.

British Honduras.

A British Colony adjoining Mexico on the southeast; area, 7562 square miles; population, 31,500; principal city, Belize, capital, population, 6000.

Unit—Peso or Dollar=100 Centavos or Cents.

Gold Coins:—None issued.

Silver Coins and Value:—Peso or Dollar, 44.3 cents; Half Dollar, 22.1 cents; Quarter Dollar, 11 cents; 10 Cents, 4.4 cents; 5 Cents, 2.2 cents.

Minor Coins:—Cent pieces of bronze.

Paper Money:—None issued.

Several attempts have been made to introduce the British monetary system without success.

Gold coins of the United States, and coins of Mexico and Central American states, circulate.

Drafts should be drawn in United States or Mexican Dollars, unless Sterling is preferred.

Costa Rica.

A Republic; area, 23,000 square miles; population, 295,000; principal cities and population: San José, capital, 30,000; Cartago, 15,000; Alajuela, 15,000; Heredia, 15,000.

Unit—Colon=100 Centavos.

Gold Coins and Value:—Onza or Doubloon, \$15.736; Half Onza, \$7.868; 20 Pesos, \$19.295; 20 Colons, \$9.31; 10 Colons, \$4.65; 5 Colons, \$2.325; 2 Colons, 93 cents; Colon, 46.5 cents.

Silver Coins and Value:—50 Centavos, 44.3 cents; 25 Centavos, 22.1 cents; 10 Centavos, 8.9 cents; 5 Centavos, 4.4 cents.

Minor Coins:—No data as to these coins.

Paper Money:—Notes of various denominations in Pesos issued by two banks.

Drafts should be drawn in United States or Mexican Dollars.

Guatemala.

A Republic; area, 40,000 square miles; population, 1,501,145; principal cities and population: Guatemala, capital, 71,527; Santo Tomás, 20,000; Coban, 27,000; Totonicapan, 26,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—20 Pesos, \$19.295; 10 Pesos, \$9.647; 5 Pesos, \$4.823; 2½ Pesos, \$2.41; Peso, 96.4 cents; Doblón or Onza, \$15.93; Quarter Doblón or Pistole, \$3.88; Pistole, 97 cents.

Silver Coins and Value:—Peso, 42.7 cents; Half Peso, 50 Centavos, 21.3 cents; 25 Centavos, 10.7 cents; 10 Centavos, 4.3 cents.

Minor Coins:—2 and 1 Centavo pieces of bronze.

Paper Money:—Notes of various denominations of Pesos are issued by three banks.

American gold coin commands a premium.

Drafts should be drawn in United States or Mexican Dollars.

Honduras.

A Republic; area, 46,400 square miles; population, 432,000; principal cities and population: Tegucigalpa, capital, 12,600; Comayagua, 10,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—20 Pesos, \$10.295; 10 Pesos, \$9.674; 5 Pesos, \$4.823; 2½ Pesos, \$2.41; Peso, 96.4 cents.

Silver Coins and Value:—Peso, 42.7 cents; Half Peso, 50 Centavos, 21.3 cents; 25 Centavos, 10.7 cents; 10 Centavos, 4.3 cents.

Minor Coins:—2 and 1 Centavo pieces of bronze.

Paper Money:—No data.

Draw drafts in United States or Mexican Dollars.

Nicaragua.

A Republic; area, 49,000 square miles; population, 380,000; principal cities and population: Leon, 60,000; Granada, 30,000; Managua, capital, 20,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—Onza or Doubloon, \$15.736; Half Onza, \$7.868; 20 Pesos, \$19.295; 10 Pesos, \$9.647; 5 Pesos, \$4.823; 2½ Pesos, \$2.41; Peso, 96.4 cents.

Silver Coins and Value:—Peso, 42.7 cents; Half Peso, 50 Centavos, 21.3 cents; Quarter Peso, 25 Centavos, 10.7 cents; 10 Centavos, 4.3 cents; 5 Centavos, 2.2 cents.

Minor Coins:—2 and 1 Centavo pieces of bronze.

Paper Money:—Notes issued by the Government in various denominations of Pesos.

Draw drafts in United States or Mexican Dollars.

Salvador.

A Republic; area, 8,300 square miles; population, 777,895; principal cities and population: Santa Ana, 33,100; San Salvador, capital, 30,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—Onza or Doubloon, \$15.736; Half Onza, \$7.868; 20 Pesos, \$19.295; 10 Pesos, \$9.647; 5 Pesos, \$4.823; 2½ Pesos, \$2.41; Peso, 96.4 cents.

Silver Coins and Value:—Peso, 42.7 cents; Half Peso, 50 Centavos, 21.3 cents; Quarter Peso, 25 Centavos, 10.7 cents; 10 Centavos, 4.3 cents.

Minor Coins:—2 and 1 Centavo pieces of bronze.

Paper Money:—No data.

Draw drafts in United States or Mexican Dollars.

ATLANTIC OCEAN.**The Bermudas—Bermuda Islands.**

A British Colony of Islands in the Atlantic Ocean due east from North Carolina, United States of America; area, 20 square miles; population, 15,794; principal city, capital, Hamilton, population, 1500.

Unit—Pound=20 Shillings. 1 Shilling=12 Pence.

Although the unit of money is the same as Great Britain, accounts are still kept in dollars and cents. United States gold coins are accepted everywhere and the British gold and silver coins are in circulation. A silver British Four-Penny piece called Groat is supplied by Great Britain, its nominal value being about 8 cents. Paper money is supplied by the Nassau Bank of Nassau at Bahama, and by the Colonial Bank at Jamaica.

The Bermudas comprise a group of about 300 islands of coral formation, but of these twelve are inhabited only.

Drafts should be drawn in United States Dollars, or Pounds, Sterling.

Cape Verde Islands.

A group of about 10 islands off the west coast of Africa belonging to Portugal; area, 1650 square miles; population (1885), 110,930. The principal cities are Port Praya on Santiago Island, Luzon on Fogo Island, Mindello on Santa Vincente Island, Boavista on Boavista Island.

These Islands use, principally, the money of Portugal, although those near Africa use the Rupee and coins in use in Zanzibar. There is also in use a coin called "Barinha," worth in United States money about three cents, and in the western islands a piece called "Macuta," worth about five cents.

Draw drafts in Pounds Sterling, Francs, or Marks.

Saint Helena Island.

An Island in mid-ocean, southwest of Africa, controlled by Great Britain. It is situated in the direct line for vessels passing around the Cape of Good Hope, and is a valuable naval station. It is especially notable by reason of its being the place of Napoleon's exile and death, 1815-21.

All kinds of money pass, but British money alone is legal tender. No notes are issued and little gold is used. The principal city is Jamestown. No data as to area and population.

Draw drafts in Pounds, Sterling.

WEST INDIES—ISLANDS.

Anguilla Island.

One of the Leeward Islands of the West Indies group, east of Porto Rico, under British control, having an area of about 100 square miles, and a population of about 20,000; principal city, Arena.

Unit—Pound=20 Shillings.

1 Shilling=12 Pence.

Accounts are kept in Dollars and Cents, although British gold, silver, and minor coins are in circulation. Gold coins of the United States are accepted everywhere. English mints also supply a Four-Penny piece called "Groat," equal to about 8 cents. No data as to paper money, but, presumably, the banks at Nassau, at Bahama, and the Colonial Bank at Jamaica furnish notes, as is the case with other islands in the British West Indies.

Draw drafts in Pounds Sterling, or United States Dollars.

Bahama Islands.

A group of about 20 islands off the east coast of Florida, United States of America, under control of Great Britain; area, 5450 square miles; population, 47,565; principal city and capital, Nassau, on the Island of New Providence, population, 11,000.

The unit of money is the same as that of Great Britain, although accounts are kept in Dollars and Cents. British silver pieces are in general circulation. United States gold coins are accepted everywhere and silver coins, too, at their actual value. English mints supply a silver piece called "Groat," worth about 8 cents in United States money. Paper money is supplied by the bank at Nassau.

Drafts should be drawn in Pounds Sterling, or United States Dollars.

Barbadoes.

A British Colony, one of the Leeward Islands, just east of Porto Rico; area, 166 square miles; population, 182,306; principal city, Bridgetown, capital, population, 25,000.

The same monetary conditions as at Bahama Islands.

Draw drafts in Pounds Sterling, or United States Dollars.

Cuba.

Formerly a Spanish possession, but now under the control of the United States; area, 41,655 square miles; population, 1,730,000; principal cities and population: Havana, capital, 200,448; Pinar del Rio, 30,000; Matanzas, 56,379; Cardenas, 23,354; Puerto Principe, 49,000; Sancti Spiritus—Esperitu, 29,278; Cienfuegos, 40,964; Sagua la Grande, 18,830; Santa Clara, 32,491; Trinidad, 29,448; Santiago de Cuba, 71,000.

Unit:—The money of account is the Peso=8 Reals, although the actual unit prior to the transfer of the Island to the United States was the Spanish Peseta=100 Centimos. On account of the new conditions, accounts will, no doubt, soon be kept in Dollars and Cents of the United States.

Gold Coins and Value:—Centeen, \$5.02; Quadruple Onza, \$15.736; Isabelle Doubloon, \$5.02; Alfonso, 25 Pesetas, \$4.83; Peso, 92.6 cents.

Silver Coins and Value:—Peso, 49 cents; Half Peso, 24½ cents; Quarter Peso, 12 cents; 10 Centimos, 6 cents; 5 Centimos, 3 cents.

Minor Coins:—5, 2, and 1 Centimo pieces of bronze.

Paper Money:—Small notes issued by Cuban banks; paper money of Spain in Pesetas is also in circulation.

The money of the United States now passes almost everywhere, gold coins being especially acceptable.

Draw drafts in United States Dollars.

Guadeloupe.

A group of Islands lying southeast of Porto Rico, controlled by France; area, 722 square miles; population, 166,000; principal city, Basse Terre, population, 8790.

These Islands use the French monetary system, the Franc=100 Centimes. Gold is not in general circulation. For silver and minor coins, see France. Notes are issued by banks in Francs in denominations of 5, 25, 100, and 500.

Draw drafts in Francs.

Hayti—Haiti.

A Franco-American Republic, occupying the west portion of the Island of Hayti or San Domingo, and located just east of the Island of Cuba; area, 10,204 square miles; population, 960,000; principal city and population: Port au Prince, capital, 60,000.

Unit—Gourde=100 Cents.

Gold Coins and Value:—Although very little, if any, gold has been coined, the pieces provided for are as follows: 10 Gourdes, \$9.65; 5 Gourdes, \$4.825; 2 Gourdes, \$1.93; Gourde, 96.5 cents.

Silver Coins and Value:—Gourde, 87 cents; 50 Cents, 43.5 cents; 20 Cents, 17.4 cents; 10 Cents, 8.7 cents; 5 Cents, 4.3 cents.

Minor Coins:—5-Cent piece of nickel, and 1-Cent piece of bronze.

Paper Money:—Notes issued by the National Bank of Hayti and by the Government in usual denominations in Gourdes.

The gold coins of the United States are acceptable everywhere.

Inhabitants mostly colored. Mexican Silver Dollars are rated at about 50 cents.

Draw drafts in United States Dollars, or Francs.

Jamaica.

Island; a British Colony lying just south of Cuba; area, 4,207 square miles; population, 639,500; principal city and population: Kingston, capital, 46,542.

Unit—Pound=20 Shillings.

12 Pence=1 Shilling.

4 Farthings=1 Penny.

The gold coins principally in use are those of the United

States, and are held by banks in their reserve. British gold coins are of course acceptable, and to some extent used.

The active silver coins in circulation are British, see Great Britain, although the Mexican Peso or Dollar is quite generally used.

Minor coins are Pence and Half Pence of bronze.

Paper money is issued by the Colonial Bank.

Draw drafts in Pounds Sterling, or United States Dollars.

Martinique.

A French Island located southeast of Porto Rico; area, 381 square miles; population, 175,500; principal city, Saint Pierre, capital, population, 25,382.

Unit—Franc=100 Centimes.

This Island uses the money of France almost exclusively, although gold coins of the United States and Great Britain are acceptable.

Draw drafts in Francs, or United States Dollars.

Porto Rico.

Island; recently acquired by the United States, formerly belonging to Spain; area, 3550 square miles; population, 813,937; principal cities and population: Ponce, 38,000; San Juan, 30,000.

Old Unit—Peseta=100 Centimos.

New Unit—United States Dollar=100 Cents.

Owing to the short period in which this Island has been in the possession of the United States, most accounts are still kept in the Spanish Peseta, and Spanish money is still quite generally used, see Spain. The money of the United States will now be found in all sections of the Island, and passes current. The value of the silver Peseta is about 19 cents. Paper money, both Spanish and the United States, is used.

Draw drafts in United States Dollars.

Santo Domingo.

Island; a Republic, occupying the eastern portion of the Island of Haiti; area, 18,045 square miles; population, 610,000; principal cities and population: Santo Domingo, capital, 25,000; Puerto Plata, 15,000; Santiago, 10,000.

Unit—Dollar=100 Cents.

The coins in use are the same as in the United States, but of less actual value. Mexican coins, as well as Spanish, are in general circulation. The Mexican Silver Dollar is rated at about fifty cents. Bank notes are issued by the National Bank of Santo Domingo. A very small amount of money is needed or used. Inhabitants principally colored.

Draw drafts in United States Dollars.

SOUTH AMERICA.**Argentine Republic—Argentina.**

A Republic, one of the most prosperous in South America; area, 1,500,000 square miles; population, 5,200,000; principal cities and population: Buenos Ayres, capital, 675,000; Córdoba, 66,000; Rosario, 100,000; La Plata, 70,000; Tucuman, 40,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—Argentino, 5 Pesos, \$4.824; Half Argentino, 2½ Pesos, \$2.412.

Silver Coins and Value (Estimated):—Peso, 50 cents; 50 Centavos, 25 cents; 20 Centavos, 10 cents; 10 Centavos, 5 cents; 5 Centavos, 2.5 cents.

Minor Coins:—5, 2, and 1 Centavo pieces.

Paper Money:—Notes issued by Government and banks.

Draw drafts in United States Dollars, New York exchange, unless desired in other money.

British Guiana.

A British Colony on northeast coast of South America; area, 109,000 square miles; population, 283,278; principal city and population: Georgetown, capital, 55,000.

This Colony uses the money of Great Britain, but accounts are generally kept in dollars and cents. A Four-Penny piece of silver, worth nominally 8 cents, is supplied by Great Britain.

Draw drafts in United States Dollars, New York exchange, or Pounds Sterling.

Bolivia.

A Republic, situated in the western part of South America; area, 567,431 square miles; population, 2,500,000; principal cities and population: Sucre, capital, 40,000; La Paz, 80,000; Cochabamba, 50,000; Potosi, 20,000.

Unit—Boliviano=100 Centavos.

Gold Coins and Value:—Doubloon, \$15.60.

Silver Coins and Value:—Boliviano, 42.7 cents; 50 Centavos, 21.3 cents; 20 Centavos, 8.5 cents; 10 Centavos, 4.3 cents; 5 Centavos, 2.2 cents.

Minor Coins:—5 Centavo piece of nickel and 1 Centavo piece of copper or bronze.

Paper Money:—Notes issued by banks in various denominations of Bolivianos.

The home value of the Boliviano is the same as the Dollar of the United States, and the 50, 20, 10, and 5 Centavo pieces the same as coins of like denomination in the United States.

Draw drafts in United States Dollars, New York exchange, unless preferred in other money.

Brazil.

The largest of South American republics; area, 3,209,878 square miles; population, 18,000,000; principal cities and population: Rio de Janeiro, capital, 800,000; Bahia, 200,000; Pernambuco, 190,000; Pará (Belem), 70,000; San Paulo, 100,000.

Unit—Milreis=1000 Reis.

The Republic adheres to the monetary system of Portugal, except that its unit, the Milreis, is only half the value of that of Portugal.

Gold Coins and Value:—20 Milreis, \$10.92; 10 Milreis, \$5.46; 5 Milreis, \$2.73. The value of the Gold Milreis is 54.6 cents; Moidore, old, \$4.93; Half Joe, old, \$8.73.

Silver Coins and Value:—2 Milreis, 97 cents; 1 Milreis, 48.5 cents; Half Milreis, 24.2 cents; Double Pataca, 35 cents; 500 Reis, 12 cents.

Minor Coins:—200 and 100 Reis, nickel, and 40 Reis of bronze.

Paper Money:—Notes issued by the Government and Bank of Republic of Brazil.

Gold usually commands a high premium.

Draw drafts in United States Dollars, New York exchange, unless preferred in other money.

Chili.

A Republic, lying on the southwest coast of South America, between the Andes Mountains and the Pacific Ocean; area, 293,970 square miles; population, 3,500,000; principal cities and population: Santiago, capital, 250,000; Valparaiso, 104,952; Concepcion, 25,000; Talca, 23,432; Chillan, 25,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—Condor, 10 Pesos, \$7.30; Half Condor, or Doubloon, \$3.65; Fifth Condor, or Escudo, \$1.825; Peso, 36.5 cents. Gold usually commands a high premium.

Silver Coins and Value (Estimated):—Peso, 48 cents; Half Peso, 24 cents; 20 Centavos, 9 cents; Decimo, 5 cents; Media Decimo, 3 cents.

Paper Money:—Notes issued by the Government and banks in various denominations of Pesos.

Draw drafts in United States Dollars, New York exchange, unless preferred in other money.

Colombia.

A Republic, in the extreme northwestern part of South America, and includes the Isthmus of Panama; area, 504,773 square miles; population, 3,878,600; principal cities and population: Bogota, its capital, 110,000; Medellia, 50,000; Panama, 30,000; Barranquilla, 20,000; Popayan, 20,000.

Unit—Peso=100 Centavos.

Gold Coins and Value:—Condor, \$9.647; Double Condor, \$19.295; Doubloon, \$15.62; Half Doubloon, \$7.60; Quarter Doubloon, \$3.80.

Silver Coins and Value:—Peso, 42.7 cents; 50 Centavos, 21.3 cents; 25 Centavos, 10.7 cents; 10 Centavos, 4.3 cents; 5 Centavos, 2.2 cents.

Minor Coins:—5, 1, and $\frac{1}{2}$ Centavos of nickel.

Paper Money:—Notes issued by banks in denominations of 5, 10, 50, 100, and 500 Pesos.

Draw drafts in United States Dollars, New York exchange.

Ecuador.

A Republic; so called by reason of being situated on the Equator; area, 155,000 square miles; population, 1,300,000; principal cities and population: Quito, capital, 80,000; Guayaquil, 50,000; Cuenca, 30,000.

Unit—Sucre=100 Centavos.

Gold Coins and Value:—Condor, \$9.647; Double Condor, \$19.294.

Silver Coins and Value:—Sucre, 42.7 cents; 50 Centavos, 21.3 cents; 20 Centavos, 8.5 cents; 10 Centavos, 4.3 cents.

Minor Coins:—5, 2, and $\frac{1}{2}$ Centavo pieces of nickel, and 2 and 1 Centavo pieces of bronze.

Paper Money:—Notes issued by banks in several denominations of Pesos.

Draw drafts in United States Dollars, New York exchange.

French Guiana.

A French Colony on northeast coast of South America; area, 30,000 square miles; population, 25,796; principal city and population, Cayenne, capital, 10,600.

Unit—Franc=100 Centimes.

Although this Country uses the French monetary system, accounts are kept in dollars and cents, as in most South American countries. Very little money is used. For list of coins, see those of France.

Draw drafts in United States Dollars, or Francs.

Guiana—See French and British Guiana.

Paraguay.

A Republic in the southern part of South America; area, 95,000 square miles; population, 600,000; principal cities and population: Asuncion, capital, 35,000; Zuque, 20,000; Carepegui, 15,000.

Unit—Peso=8 Reals.

All kinds of South American money circulate in this interior State, although very little is used. Money of Brazil is more generally in circulation. Gold is usually at a high premium.

Draw drafts in United States Dollars, New York exchange.

Peru.

A Republic; area, 449,000 square miles; population, 2,622,000; principal cities and population: Arequipa, 35,000; Lima, capital, 103,956; Callao, 35,492; Cuzco, 30,000.

Unit—Sol=10 Dineros of 10 Centavos.

Gold Coins and Value:—Doubloon, \$15.57; 20 Sol, \$9.65; 10 Sol, \$4.825; 5 Sol, \$2.412; 2 Sol, 96.4 cents; Sol, 48.2 cents.

Silver Coins and Value:—Sol, 42.7 cents; Half Sol, 21.3 cents; Fifth Sol, 8.5 cents; Dinero or Tenth Sol, 4.3 cents; Half Dinero, 2.2 cents; Peso, old, 52 cents.

Minor Coins:—2 and 1 Centavos of copper. The value of the Centavo is nominally 1 cent.

Paper Money:—No data as to present paper currency. This Country mines a vast quantity of silver.

Draw drafts in United States Dollars, New York exchange unless preferred in other money.

Uruguay.

A Republic; area, 72,172 square miles; population, 792,800; principal cities and population: Montevideo, capital, 238,080; Salto, 12,000; San Jose, 7000.

Unit—Peso = 100 Centavos.

Gold Coins and Value:—Peso or Patacoes, \$1.034; 4 Patacoes, 5 Pesos, \$5.17; 2 Patacoes, 2½ Pesos, \$2.585.

Silver Coins and Value:—Peso, 42.7 cents; 50 Centavos, 21.3 cents; 20 Centavos, 8.5 cents; 10 Centavos, 4.3 cents.

Minor Coins:—No data.

Paper Money:—Notes issued by one local and five foreign banks in several denominations of Pesos.

Many American and British, as well as some other European coins, circulate freely.

Draw drafts in United States Dollars, New York exchange.

Venezuela.

A Republic; area, 597,960 square miles; population, 2,560,400; principal cities and population: Carácas, capital, 72,429; Valencia, 38,654; Maracaibo, 45,177; Barquisimeto, 31,476.

Unit—Bolívar = 20 Centavos.

Gold Coins and Value:—100 Bolívars, \$19.30; 50 Bolívars, \$9.65; 20 Bolívars, \$3.86; 10 Bolívars, \$1.93; 5 Bolívars, 96.5 cents.

Silver Coins and Value:—Venezolano, 5 Bolívars, 93.5 cents; 2 Bolívars, 34.7 cents; Bolívar, 17.4 cents; 10 Centavos, 8.7 cents; 4 Centavos, 3.5 cents.

Minor Coins:—10 and 5 Centavos of bronze.

Paper Money:—Notes issued by three English banks in usual denominations of Bolívars.

Draw drafts in United States Dollars, New York exchange, unless preferred in other money.

Similarity of Monetary Systems of Different Countries.

It will be especially noted that the French system of Francs is in use in several countries.

Belgium and Switzerland use the term **Franc**, but the equivalent pieces of the other countries are as follows:

Italy, **Lira**; Spain, **Peseta**; Greece, **Drachma**; Bulgaria, **Lew**; Roumania, **Lei**; Servia, **Dinar**; Finland, **Markka**, or **Finmark**; Venezuela, **Bolivar**; all being of about the same value.

The dollar of South America is called **Sol**; that of Bolivia, **Boliviano**; Ecuador, the **Sucre**; and in Haiti a similar coin is called **Gourde**.

The **Guilders** of Holland, **Gulden** of Germany, and **Peso Duras** of Spain are no longer coined.

The Tael of China is a weight only, and varies in value according to location.

In countries where coins of a very small value are used to a great extent, as in case of the coin called **Cash** used in China, worth only about 1/10 of a cent, the people are either very poor or very economical.

Terms—Coinage of Money.

In connection with the coinage of metals for use as money, several terms are used, as follows:

Ratio is used to express the equivalent between gold and silver under the various mint laws.

Free Coinage is used to signify that any one may bring bullion to the mint to be coined, and whatever difference there is between the value of the pieces coined and the original cost of the bullion is profit to the owner.

Seignorage is used to indicate the difference between the market value of the bullion and its coinage value.

Bi-Metalism means the free and unlimited coinage of both gold and silver into coins of full paying value.

SUPPLEMENTATION.

Revised Values.*

Subjoined are the Monetary Units of all the principal countries of the world with the approximate value in the money of the United States under date of April 1, 1908.

The Monetary Units of Countries.

Values of Foreign Coins.

Once each three months, the Director of the United States Mint at Washington, District of Columbia, is required to estimate the values of the standard coins of the nations of the world and to publish same in circular form for use of Collectors of Customs in computing the value of goods imported. It is rarely ever necessary to change the values of gold coins, since their weight and fineness are fixed by the laws of the countries where issued, and the value of pure gold is the same throughout the world. In the case of silver coins it is quite different, as the value of silver fluctuates according to the actual market for same, just as is the case with any commodity. The values, as given by the Director of the United States Mint for silver coins, are based upon the amount of pure silver contained therein, and the average market price of silver for the three months preceding the date of his circular.

Compiled below are the monetary units of all the principal countries of the world, showing, also, whether such units are of gold or silver, and their approximate value in the money of the United States. All values are as given by the Director of the United States Mint in the circular of April 1, 1908, except those values prefixed by (*), the value whereof is estimated by the compiler.

* Compiled by Mr. Howard K. Brooks of Chicago.

Europe.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Austria-Hungary,	Krone=100 Heller, -	Gold,	\$0.203
Belgium, -	Franc=100 Centimes, -	Gold,	.193
Bulgaria, -	Lew=100 Stotinki, -	Gold,	*.193
Denmark, -	Krone or Crown=100 Ores,	Gold,	.268
England,	{ Pound=20 Shillings of 12 } Pence, of 4 Farthings, }	Gold,	4.8665
Finland, -	Finmark=100 Penni, -	Gold,	.193
France, -	Franc=100 Centimes, -	Gold,	.193
Germany, -	Mark=100 Pfennig, -	Gold,	.238
Greece, -	Drachma=100 Lepta, -	Gold,	.193
Holland, -	Gulden or Florin=100 Cents,	Gold,	.402
Ireland, -	Same as England, -	Gold,	4.8665
Italy, -	Lira=100 Centesimi, -	Gold,	.193
Norway, -	Krone=100 Ores, -	Gold,	.268
Portugal, -	Milreis=1000 Reis, -	Gold,	1.08
Roumania, -	Lew=100 Bani, -	Gold,	*.193
Russia, -	100 Copecks, -	Gold,	.515
Scotland, -	Same as England, -	Gold,	4.8665
Servia, -	Dinar=100 Paras, -	Gold,	*.193
Spain, -	Peseta=100 Centimos, -	Gold,	.193
Sweden, -	Krone=100 Ores, -	Gold,	.268
Switzerland, -	Franc=100 Centimes, -	Gold,	.193
Turkey, -	Piaster=40 Paras, -	Gold,	.044
Wales, -	Same as England, -	Gold,	4.8665

South America.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Argentina, -	Peso=100 Centavos, -	Gold,	0.965
British Guiana, -	Money of England.		
Bolivia, -	Boliviano=100 Centavos,	Silver,	.408
Brazil, -	Milreis=1000 Reis, -	Gold,	.546
Chili, -	Peso=100 Centavos, -	Gold,	.305
Colombia, -	Dollar=100 Cents -	Gold,	1.00
Ecuador, -	Sucre=100 Centavos, -	Gold,	.487
Peru, -	Sol=10 Dineros, -	Gold,	.487
Uruguay, -	Peso=100 Centavos, -	Gold,	1.034
Venezuela, -	Bolivar=20 Centavos, -	Gold,	.193

Asia.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Afghanistan, -	Rupee=16 Annas, -	Silver, *	\$0.324
Baluchistan, -	Rupee=16 Annas, -	Silver, *	.324
Ceylon, -	Rupee=100 Cents, -	Silver, *	.324
China, -	Dollar=100 Cents, -	Silver, †	
Corea, -	Yang=100 Cash, -	Silver, *	.11
Hong Kong, -	Dollar=100 Cents, -	Silver, *	.439
India, -	Rupee=16 Annas, -	Silver, *	.324
Indo-China, -	Piaster=100 Cents, -	Silver, *	.40
Japan, -	Yen=100 Sen, -	Gold, *	.498
Java, -	Florin=100 Cents, -	Gold, *	.402
Nepal, -	Same as India, -	Silver, *	.324
Persia, -	Krans=20 Shahis, -	Silver, *	.075
Philippines, -	Peso=100 Centavos, -	Silver, *	.50
Russia, in Asia, -	Ruble=100 Copecks, -	Gold, *	.515
Siam, -	Florin=100 Cents, -	Gold, *	.402
Straits Settlements, -	Dollar=100 Cents, -	Silver, *	.568
Sumatra, -	Florin=100 Cents, -	Gold, *	.402
Turkey in Asia, -	Piasters=40 Paras, -	Gold, *	.044

Africa.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Algeria, -	Franc=100 Centimes, -	Gold, *	\$0.193
Cape Colony, -	Money of England, -	Gold, *	4.8665
Congo Free State, -	Franc=100 Centimes, -	Silver, *	.193
Egypt, -	Pound=100 Piastres, -	Gold, *	4.943
German East Africa, -	Rupee=100 Hellers, -	Silver, *	.324
Liberia, -	Dollar=100 Cents, -	Gold, *	1.00
Natal, -	Money of England, -	Gold, *	4.8665
Orange Free State, -	Money of England, -	Gold, *	4.8665
Reunion, -	Franc=100 Centimes, -	Gold, *	.193
South African Republic, -	Money of England, -	Gold, *	4.8665
Tunis, -	Franc=100 Centimes, -	Gold, *	.193

† While the monetary unit of China is the Silver Dollar of 100 Cents, the coin most frequently used is the Silver Tael, and its value varies according to locality of issue, ranging from 61 to 69 cents.

North America.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Alaska, -	Dollar=100 Cents, -	Gold,	*\$1.00
Canada, - -	Dollar=100 Cents, -	Gold,	*1.00
Labrador, -	Dollar=100 Cents, -	Gold,	*1.015
Mexico, -	{ Peso or Dollar=100 } Centavos or Cents, }	Gold,	.498
Newfoundland, -	Dollar=100 Cents, -	Gold,	1.014
United States,	Dollar=100 Cents, -	Gold,	1.00

Central America.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
British Honduras,	{ Peso or Dollar=100 } Centavos or Cents, }	Gold,	1.00
Costa Rica, -	Colon=100 Centavos, -	Gold,	.465
Guatemala, -	Peso=100 Centavos, -	Silver	.408
Honduras, -	Peso=100 Centavos, -	Silver,	.408
Nicaragua, -	Peso=100 Centavos, -	Silver,	.408
Panama, -	Balboa=100 Cents	Gold,	\$1.00
Salvador, - -	Peso=100 Centavos, -	Silver,	.408

Islands of the Atlantic and Pacific Oceans.

COUNTRY.	MONETARY UNIT.	STANDARD.	VALUE.
Australia, -	Use the money of England: Pound, Sterling, of 20 Shillings of 12 Pence of 4 Farthings, -	Gold,	*4.8665
Bahama, -			
Barbadoes, -			
Borneo, -			
Bermuda, -			
Fiji, - -			
Jamaica, -			
New Zealand,			
Tasmania, -			
Hawaii, - -	Dollar=100 Cents, -	Gold,	1.00
Cuba, - - -	Peso=100 Centavos, -	Gold,	.926
Hayti, - -	Gourde=100 Cents, -	Gold,	.965
Martinique, -	Franc=100 Centimes, -	Gold,	.193
Porto Rico, -	Dollar=100 Cents, -	Gold,	1.00

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